ANNUAL REPORT

Pacific Life Funding, LLC

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

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

Unless otherwise specified, the financial information contained in this 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, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 (the “**Audited GAAP Financial Statements**”).

Dated: April 29, 2016

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 $106 million aggregate principal amount remained outstanding as of December 31, 2015. 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 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. Suzan Merren and Ms. Rachel Fisher. 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 shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the administration agreement. The Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, George Town, Grand Cayman KY1-1102, Cayman Islands. There are currently no committees of the board of directors. There are currently no existing or proposed service contracts between PLF or any subsidiary thereof and any of the directors of PLF. The directors of PLF are not currently entitled to remuneration or benefits in kind from PLF and do not currently hold any interests in the share capital of PLF.

Capitalization

The authorized share capital of PLF is US$50,000 divided into 50,000 ordinary shares of US$1.00 each, 1,000 of which have been issued. All of the issued shares of PLF are fully paid and are held by 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, it's holding of the shares.

The following table presents PLF's capitalization as of December 31, 2015 prepared in conformity with GAAP. The information as of December 31, 2015 in this table is derived from the audited GAAP financial statements of PLF as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013.

	December 31, 2015
Debt:	
Debt	$ 105,922,113
Total Debt	105,922,113
Equity:	
Share capital	1,000
Retained earnings	24,770
Total Equity	25,770
Total capitalization	$ 105,947,883

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 year ended December 31, 2015. There have been no recent developments having a material effect on PLF or its business since December 31, 2015. As of the date of this Annual Report, there exists no condition or event that would constitute an event of default under the terms of the instruments issued by PLF that are currently outstanding.

There are currently no indications that the business of PLF will change between the date of this report and June 30, 2016.

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 report constitutes a review by PLF's management of the business and position of PLF during the year ended December 31, 2015, and contains a fair review of that period.

Dated: April 29, 2016

/s/ Suzan Merren
Suzan Merren
Director

/s/ Rachel Fisher
Rachel Fisher
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 it in conjunction with the sections of the Annual Report that follow and the Audited GAAP Financial Statements included in this 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 December 31, 2015 and 2014 (other than “life insurance in force” and “employees” included in “Other Data”) and for the years ended December 31, 2015, 2014 and 2013 has been derived from the Audited GAAP Financial Statements included in this Annual Report. The selected consolidated GAAP financial information for the Company as of December 31, 2013 (other than “life insurance in force” and “employees” included in “Other Data”) has been derived from the Company’s audited GAAP consolidated financial statements not included in this Annual Report.

	Years Ended December 31,		
Consolidated Statements of Operations Data:	**2015**	**2014**	**2013**
		(in millions)	
Revenues:			
Policy fees and insurance premiums	$ 4,179	$ 3,414	$ 3,365
Net investment income	2,557	2,408	2,290
Net realized investment gain (loss)	234	(597)	586
Other than temporary impairments	(96)	(24)	(27)
Investment advisory fees	353	376	351
Aircraft leasing revenue	833	796	736
Other income	260	259	253
Total revenues	8,320	6,632	7,554
Benefits and Expenses:			
Policy benefits paid or provided	3,249	2,650	2,366
Interest credited to policyholder account balances	1,250	1,203	1,248
Commission expenses	1,200	398	1,354
Operating and other expenses	1,870	1,759	1,784
Total benefits and expenses	7,569	6,010	6,752
Income before provision for income taxes	751	622	802
Provision for income taxes	149	102	131
Net income	602	520	671
Less: net (income) loss attributable to noncontrolling interests	2	3	(19)
Net income attributable to the Company	$ 604	$ 523	$ 652

Consolidated Statements of Financial Condition:	**December 31,**		
	2015	**2014**	**2013**
		($ in millions)	
Assets:			
Investments	$ 59,796	$ 54,822	$ 49,860
Cash and cash equivalents	1,845	3,220	2,000
Restricted cash	265	266	314
Deferred policy acquisition costs	4,719	4,742	4,214
Aircraft, net	8,307	7,817	7,296
Other assets	3,229	2,985	3,117
Separate account assets	56,974	60,625	60,864
Total assets	$ 135,135	$ 134,477	$ 127,665
Liabilities and Equity:			
Liabilities:			
Policyholder account balances	$ 41,359	$ 39,169	$ 36,751
Future policy benefits	14,088	13,200	10,444
Debt	9,590	8,331	7,826
Other liabilities	3,438	3,410	2,932
Separate account liabilities	56,974	60,625	60,864
Total liabilities	125,449	124,735	118,817
Equity:			
Common stock	30	30	30
Paid-in capital	1,012	982	982
Retained earnings	7,868	7,264	6,941
Accumulated other comprehensive income	688	1,362	858
Total stockholder’s equity	9,598	9,638	8,811
Noncontrolling interests	88	104	37
Total equity	9,686	9,742	8,848
Total liabilities and equity	$ 135,135	$ 134,477	$ 127,665
Other Data:			
Life insurance in force	$ 489,365	$ 497,607	$ 299,256
Employees	3,033	2,937	2,743

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 Audited GAAP Financial Statements included in this Annual Report.

Background

Pacific Life was established in 1868 and is a Nebraska stock life insurance company 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 Delaware stock holding company. Pacific LifeCorp is a direct, wholly owned subsidiary of Pacific Mutual Holding Company ("**PMHC**"), a Nebraska mutual insurance holding company. 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 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, aircraft leasing and reinsurance. As of December 31, 2015, 2014 and 2013, the Company had $135.1 billion, $134.5 billion and $127.7 billion, respectively, in total assets, and total stockholder's equity of $9.6 billion, $9.6 billion and $8.8 billion, respectively. Life insurance in force was $489.4 billion, $497.6 billion and $299.3 billion as of December 31, 2015, 2014 and 2013, respectively. The increase in life insurance in force in 2015 and 2014 over 2013 was primarily attributable to a large reinsurance transaction of a block of in force individual life insurance of approximately $200 billion from Reinsurance Group of America in December 2014 ("**RGA Transaction**"). Net income attributable to the Company was $604 million for the year ended December 31, 2015 as compared to $523 million for the year ended December 31, 2014 and $652 million for the year ended December 31, 2013.

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

Segments

The Company's primary operating segments are: Life Insurance, Retirement Solutions, Aircraft Leasing, Reinsurance and Corporate and Other.

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in primarily the upper income and corporate markets. Principal products include universal life, indexed 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 December 31, 2015 and 2014, the Life Insurance segment represented 28% of the Company's total assets.

The Retirement Solutions segment's principal products include variable and fixed annuity products, mutual funds, and structured settlement annuities and group retirement annuities, which are offered

through multiple distribution sources. Distribution channels include independent planners, financial institutions, national/regional wirehouses and a network of structured settlement brokers. As of December 31, 2015 and 2014, this segment represented 59% and 61%, respectively, of the Company’s total assets.

The Aircraft Leasing segment encompasses the operations of Aviation Capital Group Corp. (“**ACG**”), a wholly owned subsidiary of Pacific Life. ACG is an aircraft asset manager that deploys its operating lease platform to provide fleet strategy solutions to airlines and asset management services to financial investors worldwide. As of December 31, 2015, ACG’s portfolio included 266 owned and managed aircraft. As of December 31, 2015 and 2014, 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 in 2011 (which is referred to as “**PL Retro**”) and international reinsurance the Company has assumed from Pacific Life Re Limited (“**PLRL**”), a wholly owned subsidiary of Pacific LifeCorp incorporated in the United Kingdom. PL Retro assumes mortality risks from other life reinsurers, with a small amount of morbidity risk as part of larger treaties. PL Retro serves clients primarily in the U.S., Canada and Europe. PLRL provides reinsurance products and services to insurance and annuity providers in the United Kingdom, Ireland and Australia, and, through its Singapore branch, to insurers in selected Asian markets. As of December 31, 2015 and 2014, the Reinsurance segment represented 1% of the Company's total assets.

The Corporate and Other segment consists of all other assets, liabilities and activities not allocated to any other segment. The Corporate and Other segment provides various corporate administrative and investment management services on behalf of the other business segments, the majority of which are allocated to the segments at cost. Additionally, the Corporate and Other segment manages the surplus assets of the Company, issues long-term and short-term debt, engages in entity level hedging activities and manages the Company’s institutional investment products in addition to other Corporate activities.

Principal Subsidiaries and Affiliates

ACG was founded in 1989 and comprises the Company’s Aircraft Leasing segment. ACG’s business focuses on acquiring, managing and trading commercial jet aircraft, and leasing such aircraft to airlines worldwide. ACG also seeks to provide aircraft portfolio management services to third parties. ACG is headquartered in Newport Beach, California (U.S.), and maintains a global presence and has representatives in Beijing (China), Dublin (Ireland), Santiago (Chile), Seattle (U.S.), Shanghai (China), Singapore and the United Kingdom.

Pacific Life & Annuity Company (“**PL&A**”) is a stock life insurance company domiciled in Arizona and is a wholly owned subsidiary of Pacific Life. PL&A markets and distributes variable universal life, 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 New York. PL&A has been deemed to be commercially domiciled in the state of New York and subject to certain requirements under New York insurance law that do not otherwise apply to New York-licensed insurers domiciled outside New York.

Pacific Select Distributors, LLC (“**PSD**”) is a registered broker-dealer and a wholly owned subsidiary of Pacific Life that serves as the underwriter and wholesale distributor of the Company’s registered investment-related products and services, principally variable life and annuity contracts and retail mutual funds. The Pacific Select Fund, an investment vehicle provided to Pacific Life’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 its 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 that assist in providing any of the services.

Pacific Asset Holding LLC ("**PAH**") is a wholly owned subsidiary of Pacific Life that invests in commercial real estate properties and ventures, and other private equity investments.

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

Pacific Global Advisors LLC ("**PGA**"), was a wholly owned subsidiary of Pacific Life that specialized in customized investment, risk management and termination solutions for pension plans and other institutional investors. PGA's business was sold to an unrelated third party in September 2015.

PLRL is an indirect wholly owned subsidiary of Pacific Life Re Holdings LLC, which is a direct wholly owned subsidiary of Pacific LifeCorp. PLRL's principal products are protection and annuity products, which are provided to insurance and annuity providers in the United Kingdom and Ireland, and, through its Singapore branch, to insurers in selected Asian markets. Protection products are generally term insurance products mostly linked to home mortgages, covering death, critical illness or disability, or income protection risks all typically reinsured on a risk premium basis. Annuity products support pension funds and insurance companies to manage longevity risk, and the specific risk of higher-than-expected pension or annuity payments. PLRL's Asia branch offers protection products similar to those offered by PLRL in the United Kingdom and Ireland in selected Asian markets but with more emphasis on personal accident business.

Pacific Life Reinsurance Company II Limited ("**PLRC**"), is an exempt life reinsurance insurance company domiciled in Barbados and wholly owned by Pacific Life. PLRC was formed to reinsure new non-U.S. life retrocession business written beginning January 1, 2013. PLRC also reinsures non-U.S. life retrocession business that is novated in connection with the Reinsurance segment business.

Pacific Life Re (Australia) Pty Limited ("PLRA") is a wholly owned subsidiary of Pacific Life Re Holdings LLC, which is a direct wholly owned subsidiary of Pacific LifeCorp. PLRA was formed in 2015 to reinsure life insurance business in Australia.

Pacific Life cedes certain statutory reserves to affiliated special purpose financial insurance companies and affiliated captive reinsurance companies that are supported by a combination of cash, invested and other assets and third-party letters of credit or note facilities. As of December 31, 2015, Pacific Life's total statutory reserve credit was $1,901 million, of which $1,249 million was supported by third-party letters of credit and note facilities. As of December 31, 2014, Pacific Life's total statutory reserve credit was $1,702 million, of which $1,160 million was supported by third-party letters of credit and note facilities, as described below.

Pacific Life utilizes affiliated reinsurers to mitigate the statutory capital impact of NAIC Model Regulation "Valuation of Life Insurance Policies" ("**Regulation XXX**") and NAIC Actuarial Guideline 38 on the Company's universal life products with flexible duration no lapse guarantee rider ("**FDNLGR**") benefits. Pacific Alliance Reinsurance Company of Vermont ("**PAR Vermont**") and Pacific Baleine Reinsurance Company ("**PBRC**") are Vermont based special purpose financial insurance companies subject to regulatory supervision by the Vermont Department of Financial Regulation ("**Vermont Department**"). PAR Vermont and PBRC are wholly owned subsidiaries of Pacific Life and accredited authorized reinsurers in Nebraska. Pacific Life cedes certain level term life insurance to PBRC and FDNLGR benefits to PAR Vermont and PBRC. Reinsurance ceded to PAR Vermont is net of the reinsurance ceded under an excess of loss reinsurance with a commercial reinsurer. Economic reserves, as defined in the PAR Vermont and PBRC reinsurance agreements, are supported by cash and invested and other assets, including funds withheld at Pacific Life.

Reserves in excess of the economic reserves held at PAR Vermont are supported by a letter of credit agreement provided by a highly rated bank, which has a maximum commitment amount of $843 million

and a 20 year term expiring October 2031. The letter of credit agreement is non-recourse to Pacific LifeCorp or any of its affiliates, other than PAR Vermont. The letter of credit has been approved as an admissible asset by the Vermont Department for PAR Vermont statutory accounting. As of December 31, 2015, the letter of credit amounted to $680 million and was held in a trust with Pacific Life as beneficiary. PAR Vermont admitted $677 million and $619 million as an asset in its statutory financial statements as of December 31, 2015 and 2014, respectively.

Reserves in excess of the economic reserves held at PBRC are supported by a note facility with a maximum commitment amount of $400 million. This facility is non-recourse to Pacific Life or any of its affiliates, other than PBRC. Through this facility, PBRC issued a surplus note with a maturity date of December 2043 and received a note receivable in return with a maturity date of December 2038. The note receivable is credit enhanced by a highly rated third-party reinsurer for 20 years with a five year extension. The note receivable has been approved as an admissible asset by the Vermont Department for PBRC statutory accounting. As of December 31, 2015 and 2014, the note receivable amounted to $159 million and $111 million, respectively, and was held in a trust with Pacific Life as beneficiary. PBRC admitted $159 million and $111 million as an asset in its statutory financial statements as of December 31, 2015 and 2014, respectively.

Pacific Life has reinsurance agreements with Pacific Life Reinsurance (Barbados) Ltd. ("**PLRB**"), an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific LifeCorp. The underlying reinsurance is comprised of coinsurance and yearly renewable term ("**YRT**") treaties. Pacific Life retroceded the majority of the underlying YRT U.S. treaties on a 100% coinsurance with funds withheld basis to PLRB ("**PLRB Agreement**"). The PLRB Agreement is accounted for under deposit accounting for U.S. GAAP and as reinsurance under statutory accounting principles. The statutory accounting reserve credit is supported by cash, funds withheld at Pacific Life and a $413 million letter of credit issued to PLRB by highly rated third-party banks for the benefit of Pacific Life, which expires August 26, 2016. In connection with the acquisition and reinsurance arrangements between Pacific Life and PLRB, Pacific LifeCorp entered into a capital maintenance agreement and has also agreed to honor PLRB's obligations to the letter of credit provider in the event of default.

Pacific Annuity Reinsurance Company ("**PARC**") is a captive reinsurance company subject to regulatory supervision by the Arizona Department of Insurance. PARC was formed to reinsure benefits provided by variable annuity contracts and contract rider guarantees issued by Pacific Life. Base annuity contracts are reinsured on a modified coinsurance basis and the contract guarantees are reinsured on a coinsurance with funds withheld basis. On December 1, 2012, the effective date of the reinsurance agreement, Pacific Life ceded 5% of its inforce variable annuity business to PARC, after third-party reinsurance, and ceded 5% of new business issued thereafter. PARC is a wholly owned subsidiary of Pacific LifeCorp.

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

Year Ended December 31, 2015 compared to the Year Ended December 31, 2014

Net income attributable to the Company was $604 million during 2015 as compared to $523 million for 2014. The increase in net income was primarily the result of favorable performance in the Retirement Solutions segment primarily driven by investment performance and lower net rider impacts in 2015 due to a smaller decrease in interest rates and widening credit spreads in 2015. The Aircraft Leasing segment also experienced higher lease revenues due to the addition of aircraft to the portfolio and lower interest and maintenance expenses, partly offset by lower income tax benefits and higher impairment expenses. These increases to net income attributable to the Company were partially offset by the lower investment earnings in the surplus portfolio, losses associated with the sale of the PGA business and higher costs in the Corporate and Other segment. See the discussion of the consolidated statement of operations line items below.

Policy fees and insurance premiums increased $765 million for 2015 to $4,179 million as compared to $3,414 million for 2014. 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 the Reinsurance segment from the RGA Transaction in December 2014 and also increases in higher unearned revenue reserve amortization due to the impact from 2014 assumption changes on certain in force blocks in the Life Insurance segment. These increases were partially offset by a decrease in variable annuity assets as a result of the low interest rate environment in the Retirement Solutions segment.

Net investment income increased from $2,408 million in 2014 to $2,557 million in 2015. The increase in 2015 as compared to 2014 was primarily due to an increase in mortgage loan prepayment income of $83 million and an increase in fixed maturity security investments and mortgage loan investments that generated higher investment income.

Net realized investment gain for 2015 amounted to $234 million compared to a net realized investment loss of $597 million for 2014. The primary reason for the change in net realized investment gain (loss) was the net gains related to variable annuity guaranteed living benefits in the Retirement Solutions segment (valuation of embedded derivatives, net of reinsurance, hedges and rider policy fees), primarily due to widening credit spreads, as compared to net losses in 2014 that were primarily due to large decreases in interest rates. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the components of net realized investment gain (loss).

Other than temporary impairment ("**OTTI**") losses increased to $96 million in 2015 as compared to $24 million in 2014 primarily due to losses within emerging markets and energy sector bonds. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the components of OTTI.

Investment advisory fees decreased $23 million to $353 million in 2015 from $376 million in 2014 primarily due to the lower average separate account assets under management.

Aircraft leasing revenue increased $37 million to $833 million in 2015 from $796 million in 2014. This increase was primarily the result of the addition of new aircraft to the consolidated portfolio, partially offset by sales of older aircraft.

Other income remained relatively consistent at $260 million in 2015 as compared to $259 million in 2014.

Policy benefits paid or provided increased $599 million to $3,249 million for 2015 from $2,650 million for 2014. This increase was primarily attributable to an increase in policy benefits paid or provided by the Reinsurance segment due to incurred but not reported reserves relating to the RGA Transaction. The Life Insurance segment policy benefits paid or provided increased primarily from reserve increases driven by lapse and interest rate assumption changes and higher claims volume. These increases were partly offset by smaller year over year reserve increases in the Retirement Solutions segment driven by lower payout annuity sales.

Interest credited to policyholder account balances increased slightly to $1,250 million for 2015 from $1,203 million for 2014. This increase of $47 million was primarily attributable to an increase in policyholder account values in the Life Insurance segment and an increase in the average fixed account annuity reserves in the Retirement Solutions segment. These increases were partially offset by the continued run-off of corporate products in the Corporate and Other segment.

Commission expenses for 2015 increased $802 million to $1,200 million compared to $398 million in 2014. Commission expenses include components of deferred policy acquisition costs ("**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 reinsurance, hedges and policy fees), related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The increase in commission expenses was primarily due to an increase in DAC amortization from lower variable annuity losses in the Retirement Solutions segment and to changes in actuarial assumptions and models. The Life Insurance segment also contributed to part of the increase in commission expenses due to increased DAC amortization as a result of changes in actuarial assumptions and models.

Operating and other expenses for 2015 increased by $111 million to $1,870 million as compared to $1,759 million in 2014. 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 increased in the Retirement Solutions segment due to increased DAC amortization in 2015. The Life Insurance segment had operating and other expense increases in 2015 due to an increase in compensation, higher information technology costs and the impact of changes in DAC. Operating and other expenses in the Corporate and Other segment increased primarily due to higher accrued compensation benefits, higher mark-to-market on corporate life insurance policies and higher interest expense in 2015 due to two new commercial mortgage-backed security ("**CMBS**") variable interest entities ("**VIE**").

The provision for income taxes for 2015 amounted to $149 million compared to $102 million for 2014. This increase in tax expense was primarily due to higher taxable income in 2015. The taxes in 2015 and 2014 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, 2014 compared to the Year Ended December 31, 2013

Net income attributable to the Company was $523 million during 2014 as compared to $652 million for 2013. The decrease in net income was primarily the result of mark-to-market losses in the Retirement Solutions segment related to variable annuity guaranteed living benefit rider guarantees (net of reinsurance, hedges, and DAC), due to the lower level of interest rates in 2014 compared to mark-to-market gains in the prior year from the higher level of interest rates in 2013. Also contributing to lower net income in 2014 were losses in the Life Insurance segment from unfavorable mortality spread due to higher direct claims and negative impact from changes in actuarial assumptions and models. Partially offsetting these decreases were lower losses from the Company's macro hedge program, as all equity put option and interest rate macro hedges were terminated in 2014, and strong private equity investment performance in the Corporate and Other segment. Additionally, in 2014 the Retirement Solutions segment had higher asset based fee and spread margins and gains from changes in actuarial assumptions and models. See discussion of the consolidated statement of operations line items below.

Policy fees and insurance premiums increased $49 million for 2014 to $3,414 million as compared to $3,365 million for 2013. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This slight increase was primarily attributable to higher fees and premiums in the Reinsurance segment during 2014. Also contributing to the slight increase was higher asset-based fee income due to higher assets under management, partially offset by a decrease in sales of life contingent payout annuities in the Retirement Solutions segment. The slight increase was also partially offset by lower unearned revenue reserve amortization in the Life Insurance segment.

Net investment income increased from $2,290 million in 2013 to $2,408 million in 2014. The increase in 2014 was primarily due to an increase in fixed maturity securities and mortgage loan investments that generated higher investment income and an increase in private equity valuations due to continued improvement in the equity markets.

Net realized investment loss for 2014 amounted to $597 million compared to a net realized investment gain of $586 million for 2013. Net realized investment losses in 2014 were the result of mark-to-market losses related to variable annuity guaranteed living benefits in the Retirement Solutions segment (valuation of embedded derivatives, net of reinsurance, hedges and rider policy fees), primarily due to lower interest rates during 2014 as compared to net gains in the prior year from higher interest rates during 2013. These losses were partially offset by lower losses in 2014 from the Company's macro hedge program, as all equity put option and interest rate macro hedges were terminated in 2014 in the Corporate and Other segment and the impact of mark-to-market gains from a portfolio of fair value options securities purchased in 2014 by the Retirement Solutions segment. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the components of net realized investment gain (loss).

OTTI losses amounted to $24 million in 2014 as compared to $27 million in 2013 mainly due to lower credit losses as a result of the Company's investment portfolio and improved investment performance. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the components of OTTI.

Investment advisory fees increased $25 million to $376 million in 2014 from $351 million in 2013. This increase was primarily attributable to higher average assets under management in the Retirement Solutions segment driven by continued strong equity returns.

Aircraft leasing revenue increased $60 million to $796 million in 2014 from $736 million in 2013. This increase was primarily the result of the net addition of aircraft to the consolidated portfolio.

Other income increased $6 million to $259 million in 2014 from $253 million in 2013. Other income increased in the Retirement Solutions and Life Insurance segments in 2014 due to increased service and other fees driven by higher average assets under management. This increase was partially offset by lower other income in the Corporate and Other segment in 2014 as compared to 2013 due to the Company's receipt of a non-recurring claims settlement in 2013.

Policy benefits paid or provided increased $284 million to $2,650 million for 2014 from $2,366 million for 2013. This increase was primarily attributable to an increase in death and other benefit payments in the Life Insurance and Reinsurance segments, partly offset by lower dividends to policyholders. This increase was also partially offset by smaller year over year reserve increases in the Retirement Solutions segment driven by lower payout annuity sales.

Interest credited to policyholder account balances decreased slightly to $1,203 million for 2014 from $1,248 million for 2013. This decrease of $45 million was primarily attributable to the continued run-off of certain corporate products such as guaranteed interest contracts ("**GICs**") and funding agreements in the Corporate and Other segment. The decrease was partially offset by an increase in policyholder account values in the Life Insurance segment and an increase in the average fixed account annuity reserves in the Retirement Solutions segment.

Commission expenses for 2014 decreased $956 million to $398 million compared to $1,354 million in 2013. 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 mark-to-market value of variable annuity guaranteed living benefits (net of reinsurance, hedges and rider policy fees) in the Retirement Solutions segment. The decrease in commission expenses was primarily due to a decrease in DAC amortization from the Retirement Solution segment as a result of negative amortization in 2014 compared to positive amortization in 2013 due to the previously mentioned change in mark-to-market value of the variable annuity guaranteed living benefits, partially offset by an increase in trail commissions. The Life Insurance segment also contributed to part of the decrease in commission expenses due to decreased DAC amortization.

Operating and other expenses for 2014 decreased by $25 million to $1,759 million as compared to $1,784 million in 2013. The Aircraft Leasing segment had lower expenses of $9 million primarily due to decreases in aircraft maintenance and transition expenses, partially offset by higher aircraft impairment expenses on older aircraft. Operating and other expenses in the Corporate and Other segment decreased primarily due to lower interest expense as a result of a one-time expense incurred in the first quarter of 2013 in connection with a tender offer that resulted in the retirement of $323 million of the Company's 9.25% $1.0 billion surplus notes and lower subsidiary operating expenses.

The provision for income taxes for 2014 amounted to $102 million compared to $131 million for 2013. This decrease in tax expense was primarily due to lower taxable income in 2014. The taxes in 2014 and in 2013 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.

Assets

As of December 31, 2015, the Company had total assets of $135.1 billion as compared to $134.5 billion as of December 31, 2014. The Company had an increase in total investments of $5.0 billion and aircraft, net of $0.5 billion, which contributed to the increase in total assets from December 31, 2014 to December 31, 2015. These increases were partially offset by a decrease in cash and cash equivalents of $1.4 billion and a decrease of $3.7 billion in separate account assets from December 31, 2014 to December 31, 2015. See the Audited GAAP Financial Statements included in this Annual Report for additional information on investments.

As of December 31, 2014, the Company had total assets of $134.5 billion as compared to $127.7 billion as of December 31, 2013. The Company had an increase in total investments of $5.0 billion, cash and cash equivalents of $1.2 billion, DAC of $0.5 billion, and aircraft, net of $0.5 billion, which contributed to the increase in total assets from December 31, 2013 to December 31, 2014. These increases were partially offset by a decrease of $0.2 billion in separate account assets, and a decrease of $0.1 billion in other assets from December 31, 2013 to December 31, 2014.

Liabilities

As of December 31, 2015, the Company had total liabilities of $125.4 billion as compared to $124.7 billion as of December 31, 2014. This increase in total liabilities was due to an increase in policyholder account balances of $2.2 billion, future policy benefits of $0.9 billion, and debt of $1.3 billion from December 31, 2014 to December 31, 2015. These increases were partially offset by a decrease of $3.7 billion in separate account liabilities. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on liabilities.

As of December 31, 2014, the Company had total liabilities of $124.7 billion as compared to $118.8 billion as of December 31, 2013. This increase in total liabilities was due to an increase in policyholder account balances of $2.4 billion, future policy benefits of $2.8 billion, debt of $0.5 billion and other liabilities of $0.5 billion from December 31, 2013 to December 31, 2014. These increases were partially offset by a decrease of $0.2 billion in separate account liabilities.

Liquidity and Capital Resources

The Company's principal capital resources come from insurance premiums, deposits to policyholder account balances, investment income, sales, maturities, calls and principal repayments of investments and cash flows from other operations, including aircraft leasing revenue. The principal uses of these funds are investment purchases, payment of policy acquisition costs, payment of policyholder benefits, withdrawal of policyholder account balances, income taxes and current operating expenses. Remaining funds not used as noted above are generally used to increase the asset base, to provide funds to meet the need for future policy benefit payments and for writing new business. As described below, total cash and cash equivalents decreased $1.4 billion during 2015 as compared to an increase of $1.2 billion during 2014 and a decrease of $256 million during 2013.

Net cash provided by operating activities was $4,135 million during 2015, $3,833 million during 2014 and $3,478 million during 2013. 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 flows from financing activities rather than as cash flows 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 $7,777 million during 2015, $3,965 million during 2014 and $3,917 million in 2013. Net cash used in investing activities was higher in 2015 as compared to 2014 primarily due to higher purchases and lower sales of fixed maturity and equity securities in 2015 as compared to 2014, and higher fundings of mortgage loans, real estate and CMBS VIE mortgage loans in 2015 as compared to 2014. Net cash used in investing activities was slightly higher in 2014 as compared to 2013 primarily due to purchases of fair value option securities, fundings of CMBS VIE mortgage loans and no proceeds from the sale of real estate in 2014, partially offset by lower purchases and higher sales of fixed maturity and equity securities, and higher repayments of mortgage loans. 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.

Net cash provided by financing activities was $2,267 million during 2015, $1,352 million during 2014 and $183 million in 2013. Net cash provided by financing activities in 2015 was higher than 2014 primarily due to the issuance of more long-term and CMBS VIE debt in 2015 as compared to 2014. The increase in net cash provided by financing activities in 2014 as compared to 2013 primarily related to the net change in short-term debt, issuance of CMBS VIE debt, and lower payments with respect to long-term debt and surplus notes.

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 ("**NE DOI**") 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 NE DOI 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 NE DOI 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 Nebraska law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property with a fair market value that, together with that of other dividends or distributions made by Pacific Life to Pacific LifeCorp within the preceding

twelve months, exceeds the greater of either (i) 10% of Pacific Life's statutory policyholders surplus as of the preceding December 31 or (ii) Pacific Life's statutory net gain from operations for the twelve month period ending the preceding December 31. Based on the 2015 statutory results, Pacific Life could pay $608 million in ordinary dividends or distributions during 2016, 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 Nebraska law and would be subject to the thirty day notice and non-disapproval requirement described above. During 2015, 2014 and 2013, Pacific Life paid dividends to Pacific LifeCorp of zero, $200 million and $200 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 strategy 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, the issuance of various corporate debt instruments and European Export Credit Agency ("**European ECA**") and U.S. Export-Import Bank ("**Ex-Im Bank**") guaranteed loans. 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 GICs and funding agreements. Amounts are derived from Pacific Life's statutory financial information at the dates noted.

	December 31, 2015		December 31, 2014	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment	$ 6,539	10%	$ 5,522	8%
At book value less current surrender charge of 5% or more	1,192	2%	794	1%
At fair value	46,839	68%	50,268	72%
Total with adjustment or at fair value	54,570	80%	56,584	81%
At book value without adjustment	5,000	7%	5,282	8%
Not subject to discretionary withdrawal	9,206	13%	7,876	11%
Total (gross)	68,776	100%	69,742	100%
Reinsurance ceded	170		6	
Total (net)	$68,606		$69,736	

As noted in the table above, as of December 31, 2015 and 2014, 7% and 8%, respectively, of these liabilities were subject to withdrawal at book value without adjustment. The other 93% and 92% of these liabilities 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.

Pacific Life has $150 million of surplus notes outstanding as of December 31, 2015 and 2014, at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. These surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on these surplus notes can be made only with the prior approval of the NE DOI.

Pacific Life has $677 million of surplus notes outstanding as of December 31, 2015 and 2014, 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 these surplus notes at its option, subject to the approval of the NE DOI for such optional redemption. The surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on these surplus notes can be made only with the prior approval of the NE DOI. On January 22, 2013, Pacific Life, with the approval of the NE DOI, exercised its early settlement right and repurchased and retired $323 million of the originally issued $1 billion of 9.25% surplus notes. The partial retirement of these surplus notes was accounted for as an extinguishment of debt and the related amortization of fair value hedge adjustments of $112 million and the premium paid of $155 million were recognized in interest expense during the year ended December 31, 2013.

Pacific LifeCorp has $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. The NE DOI 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 NE DOI. The internal surplus note matures on February 5, 2020. The carrying amount outstanding as of December 31, 2015 and 2014 was $450 million.

Pacific LifeCorp has $500 million of senior notes at a fixed interest rate of 5.125%, maturing on January 30, 2043. Interest is payable semiannually on January 30 and July 30. 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. The NE DOI approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $500 million with net cash proceeds of $494 million. The original issue discount of $6 million is being amortized over the life of this surplus note. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on January 25 and July 25 at a fixed annual rate of 5.125%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on January 25, 2043. Pacific Life used the proceeds from the issuance of this internal surplus note primarily for the repurchase of a portion of its 9.25% surplus notes discussed above. The carrying amount outstanding as of December 31, 2015 and 2014 was $494 million.

The Company’s principal source of liquidity to meet unexpected cash outflows is its portfolio of liquid assets, which includes short-term money market investments and public bonds. As discussed in more detail above, 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.

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 December 31, 2015, 2014 and 2013. In addition, a bank revolving credit facility totaling $400 million is also in place that serves as a back-up line of credit for the commercial paper program. The credit facility matures in October 2019. This facility had no debt outstanding as of

December 31, 2015, 2014 and 2013. As of December 31, 2015, 2014 and 2013, and for the years ended December 31, 2015, 2014 and 2013, Pacific Life was in compliance with its debt covenants related to this credit facility.

The Company 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 reverse repurchase lines of credit as of December 31, 2015, 2014 and 2013.

Pacific Life is a member of the Federal Home Loan Bank ("**FHLB**") of Topeka. Pacific Life is eligible to receive advances from the FHLB of Topeka based on a percentage of Pacific Life's statutory general account assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of Topeka requirements, debt covenant restrictions and insurance law and regulations. The Company had estimated available eligible collateral of $1.8 billion as of December 31, 2015. There was no debt outstanding with the FHLB of Topeka as of December 31, 2015, 2014 and 2013.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to receive advances from the FHLB of San Francisco based on a percentage of PL&A's net admitted assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of San Francisco requirements and insurance law and regulations. PL&A had estimated available eligible collateral of $46 million as of December 31, 2015. As of December 31, 2015, 2014 and 2013, PL&A had no debt outstanding with the FHLB of San Francisco.

Two key elements of ACG's financing strategy are its continued development of a diverse array of financing options and the issuance of debt with maturities appropriate for its long-lived aircraft assets and leases. ACG historically has had access, and expects to continue to have access, to multiple sources of financing, including bank financings, the asset-backed securities market, private debt placements in the unsecured debt market both domestically in the U.S. and in foreign markets such as Singapore and Japan, and debt guaranteed by Ex-Im Bank and the European ECAs. ACG has revolving credit agreements with banks for an aggregate of $1,165 million borrowing capacity. Interest on these loans is at variable rates, payable monthly. The facilities expire at various dates ranging from 2017 to 2019. There was $485 million, $266 million and $20 million outstanding in connection with ACG's revolving credit agreements as of December 31, 2015, 2014 and 2013, respectively. These credit agreements are recourse only to ACG.

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 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 2015 statutory results, PL&A could pay $39 million in dividends to Pacific Life in 2016 without prior regulatory approval. During the years ended December 31, 2015, 2014 and 2013, PL&A paid dividends to Pacific Life of $37 million, $35 million and $35 million, respectively.

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.

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:

- difficult economic conditions and volatility in the equity and credit markets and the global economy;
- changes in the valuation of and fluctuation in the mark-to-market value of variable annuity guaranteed minimum living benefit riders;
- changes in interest rates;
- changes in capital and credit market conditions, including the effectiveness of governmental and regulatory measures in the U.S. and elsewhere in stabilizing such markets;
- losses due to defaults by others, including issuers of investment securities or reinsurance and derivative counterparties;
- requirements to post collateral or make payments related to declines in value of specified assets, including in connection with declines in estimated fair value of fixed maturity securities, cash or cash equivalents posted as collateral under derivative contracts in the ordinary course of business, funding agreements and certain indebtedness;
- adverse legislative or regulatory developments;
- changes to the calculation of statutory reserves and impact of Regulation XXX and Actuarial Guidance 38;
- new accounting rules or changes to existing accounting rules;
- the NAIC's and regulators' increased focus on life insurers' use of captive reinsurance companies and the effect that changes in insurance laws may have in affecting the Company's use of captive reinsurance companies in the future;
- downgrades or potential downgrades in Pacific Life's ratings;
- strong competition in the Company's business;
- changes in tax laws and the interpretation thereof;
- significant market valuation fluctuations of any of the Company's investments that are relatively illiquid;

- performance of the Company's investment portfolio, which could suffer reduced returns or losses adversely affecting its profitability, capitalization and liquidity;

- subjectivity 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 or retrocessional coverage;

- 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;

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

- lower demand for ACG's aircraft;

- the availability of credit to ACG, including the ability of ACG to access long-term financing or credit support on favorable terms from Ex-Im Bank or the European ECAs;

- the uncertain financial condition of aircraft and engine manufacturers;

- the impaired financial condition and liquidity of ACG's lessees and defaults under ACG's leases;

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

- the impact on ACG of high concentrations of particular models of aircraft;

- the advent of superior aircraft technology or introduction of new lines of aircraft on ACG;

- 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 current international tensions between the U.S. and other nations, including any terrorist attack, or on-going military and other actions, or a large-scale pandemic;

- exposure to unidentified or unanticipated risks;

- foreign currency risk;

- a computer system failure or security breach; and

- global climate changes.

Recently Adopted Accounting Pronouncements

For a discussion of recently adopted accounting pronouncements, see the Audited GAAP Financial Statements included in this Annual Report.

Legal Proceedings

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 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 statements. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for litigation claims against the Company. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on litigation.

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 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 December 31, 2015, the Company had over 3,000 employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its employee relations are satisfactory.

Properties

The Company's principal administrative offices are located at 700 Newport Center Drive, Newport Beach, California, in a 285,000 square-foot office building it owns. The Company also leases office space at various locations throughout the U.S. Other principal leases include other subsidiary home offices, regional life and other sales offices and storage facilities. 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**

Audited GAAP Financial Statements of Pacific Life Funding, LLC as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013

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AUDITED GAAP FINANCIAL STATEMENTS OF
PACIFIC LIFE FUNDING, LLC
AS OF DECEMBER 31, 2015 AND 2014 AND
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

Pacific Life Funding, LLC:

We have audited the accompanying financial statements of Pacific Life Funding, LLC (the "Company"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 2015 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

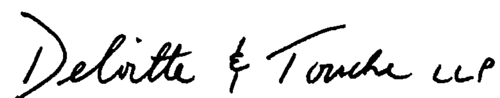
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Life Funding, LLC as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.



April 25, 2016

Member of
Deloitte Touche Tohmatsu Limited

Pacific Life Funding, LLC

BALANCE SHEETS
(Expressed in United States Dollars)

(In Thousands)	December 31, 2015	2014
ASSETS		
Cash	$26	$26
Funding Agreements	105,922	508,358
Accrued interest receivable	1,632	17,692
TOTAL ASSETS	$107,580	$526,076
LIABILITIES AND MEMBER'S EQUITY		
Liabilities:		
Notes payable	$105,922	$508,358
Accrued interest payable	1,632	17,692
TOTAL LIABILITIES	107,554	526,050
Member's Equity:		
Share capital	1	1
Retained earnings	25	25
TOTAL MEMBER'S EQUITY	26	26
TOTAL LIABILITIES AND MEMBER'S EQUITY	$107,580	$526,076

See Notes to Financial Statements

Pacific Life Funding, LLC

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

(In Thousands)	Years Ended December 31, 2015	2014	2013
INCOME			
Interest on Funding Agreements	$4,730	$23,587	$37,499
Foreign exchange gain on Funding Agreements	48,168	0	0
Foreign exchange gain on notes payable	0	41,864	22,717
TOTAL INCOME	52,898	65,451	60,216
EXPENSES			
Interest on notes payable	4,730	23,587	37,499
Foreign exchange loss on Funding Agreements	0	41,864	22,717
Foreign exchange loss on notes payable	48,168	0	0
TOTAL EXPENSES	52,898	65,451	60,216
NET INCOME	$0	$0	$0
RETAINED EARNINGS, BEGINNING OF YEAR	$25	$25	$25
Net income	0	0	0
RETAINED EARNINGS, END OF YEAR	$25	$25	$25

See Notes to Financial Statements

Pacific Life Funding, LLC

STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)

(In Thousands)	Years Ended December 31, 2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$0	$0	$0
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in accrued interest receivable	16,060	2,666	6,917
Change in accrued interest payable	(16,060)	(2,666)	(6,917)
NET CASH PROVIDED BY OPERATING ACTIVITIES	0	0	0
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of Funding Agreements	450,604	53,819	291,408
NET CASH PROVIDED BY INVESTING ACTIVITIES	450,604	53,819	291,408
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of notes payable	(450,604)	(53,819)	(291,408)
NET CASH USED IN FINANCING ACTIVITIES	(450,604)	(53,819)	(291,408)
NET CHANGE IN CASH	0	0	0
Cash, beginning of year	26	26	26
CASH, END OF YEAR	$26	$26	$26
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	$20,790	$26,253	$44,416

See Notes to Financial Statements

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. MaplesFS Limited (formerly known as 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).

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). According to the European Commission Decision 2008/961/EC of 12 December 2008, as amended by European Commission Decision 2012/194/EU of 11 April 2012, 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 Company has evaluated events subsequent to December 31, 2015 through April 25, 2016, the date the financial statements were available to be issued, and has concluded that no events have occurred that require disclosure or adjustment to these financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents, if any, include all investments with an original maturity of three months or less from the purchase date. The carrying values approximate fair values due to the short-term maturities of these instruments.

FUNDING AGREEMENTS AND NOTES PAYABLE

The Funding Agreements and related notes payable (together, the Instruments) are reported at amortized cost, adjusted for changes in foreign exchange rates. The Funding Agreements have been classified as held to maturity. Most of the instruments are denominated in currencies other than the U.S. dollar and are subject to both exchange and interest rate fluctuations.

FOREIGN CURRENCY TRANSACTIONS

Assets and liabilities denominated in currencies other than the U.S. dollar have been remeasured at exchange rates prevailing at the balance sheet date. Income and expenses involving other currencies have been remeasured at exchange rates in effect at the time of those transactions. Gains or losses on foreign exchange are recorded in the statements of operations and retained earnings.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments, disclosed in Note 5, has been determined using available market information and appropriate valuation methodologies. However, considerable judgment is often required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts the Company could realize in a

current market exchange. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts.

USE OF ESTIMATES

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 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.

3. TRANSACTIONS WITH RELATED PARTY

The Funding Agreements, included on the balance sheets, 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 years ended December 31, 2015, 2014 and 2013, Pacific Life paid $121 thousand, $107 thousand and $98 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 June 2017 to February 2021.

The following schedules detail the notes payable outstanding as of December 31, 2015 and 2014. The detail schedules for the Funding Agreements are not included, but would contain similar information, except that the schedules would reflect the investments related to the Instruments.

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2015:

Issue	Currency	Principal Denominated in Currency of Issuance *(In Thousands)*	Maturity	Interest Rate	Principal [1]	Foreign Currency Gains (Losses)	Carrying Value
					($ In Thousands)		
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	$6,340	($892)	$5,448
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	40,880	(1,234)	39,646
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	6,081	31,499
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	4,016	29,329
TOTAL					$97,951	$7,971	$105,922

December 31, 2014:

Issue	Currency	Principal Denominated in Currency of Issuance *(In Thousands)*	Maturity	Interest Rate	Principal [1]	Foreign Currency Gains (Losses)	Carrying Value
					($ In Thousands)		
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	$375,000	($63,148)	$311,852
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	126	25,790
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80 %	12,860	(759)	12,101
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	3,481	38,981
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80 %	1,580	54	1,634
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	6,340	(271)	6,069
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	40,880	3,287	44,167
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	9,673	35,091
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	7,360	32,673
TOTAL					$548,555	($40,197)	$508,358

[1] U.S. dollar equivalent at issuance.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

As described previously in Note 2, the Funding Agreements have been classified as held-to-maturity and are carried at amortized cost, adjusted for changes in foreign exchange rates. The fair values of the Funding Agreements and notes payable presented are determined using pricing models with inputs that are observable in the market or can be derived principally or corroborated by observable market data (Level 2 in the Financial Accounting Standards Board's Accounting Standards Codification Fair Value Measurement hierarchy) available to management as of December 31, 2015 and 2014.

The carrying amount and estimated fair value of the Company's financial instruments are as follows:

	December 31, 2015	
	Carrying Amount	Estimated Fair Value
	(In Thousands)	
Assets:		
Funding Agreements	$105,922	$107,181
Liabilities:		
Notes payable	105,922	107,181

	December 31, 2014	
	Carrying Amount	Estimated Fair Value
	(In Thousands)	
Assets:		
Funding Agreements	$508,358	$513,131
Liabilities:		
Notes payable	508,358	513,131

6. 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 December 31, 2015 and 2014, one thousand ordinary shares had been issued at par to MaplesFS Limited.

AUDITED GAAP CONSOLIDATED FINANCIAL STATEMENTS OF PACIFIC LIFE INSURANCE COMPANY AS OF DECEMBER 31, 2015 AND 2014 AND FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

Pacific Life Insurance Company and Subsidiaries:

We have audited the accompanying consolidated financial statements of Pacific Life Insurance Company and Subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2015 and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

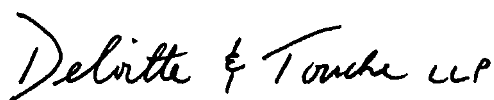
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacific Life Insurance Company and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.



March 8, 2016

Member of
Deloitte Touche Tohmatsu Limited

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Millions)	December 31, 2015	2014
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$38,725	$35,662
Equity securities available for sale, at estimated fair value	88	131
Fair value option securities	536	563
Mortgage loans (includes VIE assets of $1,800 and $750)	11,092	9,327
Policy loans	7,331	7,234
Other investments (includes VIE assets of $197 and $118)	2,024	1,905
TOTAL INVESTMENTS	59,796	54,822
Cash and cash equivalents (includes VIE assets of $7 and $7)	1,845	3,220
Restricted cash (includes VIE assets of $117 and $123)	265	266
Deferred policy acquisition costs	4,719	4,742
Aircraft, net (includes VIE assets of $713 and $869)	8,307	7,817
Other assets (includes VIE assets of $32 and $30)	3,229	2,985
Separate account assets	56,974	60,625
TOTAL ASSETS	$135,135	$134,477
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$41,359	$39,169
Future policy benefits	14,088	13,200
Debt (includes VIE debt of $1,813 and $1,079)	9,590	8,331
Other liabilities (includes VIE liabilities of $165 and $201)	3,438	3,410
Separate account liabilities	56,974	60,625
TOTAL LIABILITIES	125,449	124,735
Commitments and contingencies (Note 18)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	1,012	982
Retained earnings	7,868	7,264
Accumulated other comprehensive income	688	1,362
Total Stockholder's Equity	9,598	9,638
Noncontrolling interests	88	104
TOTAL EQUITY	9,686	9,742
TOTAL LIABILITIES AND EQUITY	$135,135	$134,477

The abbreviation VIE above means variable interest entity.

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions)	Years Ended December 31, 2015	2014	2013
REVENUES			
Policy fees and insurance premiums	$4,179	$3,414	$3,365
Net investment income	2,557	2,408	2,290
Net realized investment gain (loss)	234	(597)	586
OTTI, consisting of $102, $28 and $33 in total, net of $6, $4 and $6 recognized in OCI	(96)	(24)	(27)
Investment advisory fees	353	376	351
Aircraft leasing revenue	833	796	736
Other income	260	259	253
TOTAL REVENUES	8,320	6,632	7,554
BENEFITS AND EXPENSES			
Policy benefits paid or provided	3,249	2,650	2,366
Interest credited to policyholder account balances	1,250	1,203	1,248
Commission expenses	1,200	398	1,354
Operating and other expenses	1,870	1,759	1,784
TOTAL BENEFITS AND EXPENSES	7,569	6,010	6,752
INCOME BEFORE PROVISION FOR INCOME TAXES	751	622	802
Provision for income taxes	149	102	131
Net income	602	520	671
Less: net (income) loss attributable to noncontrolling interests	2	3	(19)
NET INCOME ATTRIBUTABLE TO THE COMPANY	$604	$523	$652

The abbreviation OTTI above means other than temporary impairment losses.

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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
(In Millions)	2015	2014	2013
NET INCOME	$602	$520	$671
Other comprehensive income (loss), net of tax:			
Gain (loss) on derivatives and unrealized gain (loss) on securities available for sale, net:			
Unrealized holding gain (loss) arising during period	(710)	525	(754)
Reclassification adjustment for (gain) loss included in net income	41	(16)	(42)
Gain (loss) on derivatives and unrealized gain (loss) on securities available for sale, net	(669)	509	(796)
Other, net	(5)	(5)	6
Other comprehensive income (loss)	(674)	504	(790)
Comprehensive income (loss)	(72)	1,024	(119)
Less: comprehensive (income) loss attributable to noncontrolling interests	2	3	(19)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	($70)	$1,027	($138)

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF EQUITY

(In Millions)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Gain (Loss) On Derivatives and Unrealized Gain (Loss) On Securities Available for Sale, Net	Accumulated Other Comprehensive Income (Loss): Other, Net	Total Stockholder's Equity	Noncontrolling Interests	Total Equity
BALANCES, JANUARY 1, 2013	**$30**	**$982**	**$6,489**	**$1,661**	**($13)**	**$9,149**	**$419**	**$9,568**
Comprehensive income (loss):								
Net income			652			652	19	671
Other comprehensive loss				(796)	6	(790)		(790)
Total comprehensive income (loss)						(138)	19	(119)
Dividend to parent			(200)			(200)		(200)
Change in equity of noncontrolling interests							(21)	(21)
Deconsolidation of VIEs							(380)	(380)
BALANCES, DECEMBER 31, 2013	**30**	**982**	**6,941**	**865**	**(7)**	**8,811**	**37**	**8,848**
Comprehensive income (loss):								
Net income (loss)			523			523	(3)	520
Other comprehensive income (loss)				509	(5)	504		504
Total comprehensive income (loss)						1,027	(3)	1,024
Dividend to parent			(200)			(200)		(200)
Change in equity of noncontrolling interests							70	70
BALANCES, DECEMBER 31, 2014	**30**	**982**	**7,264**	**1,374**	**(12)**	**9,638**	**104**	**9,742**
Comprehensive loss:								
Net income (loss)			604			604	(2)	602
Other comprehensive loss				(669)	(5)	(674)		(674)
Total comprehensive loss						(70)	(2)	(72)
Assumption of noncontrolling interest (Note 7)		30				30	(30)	-
Change in equity of noncontrolling interests							16	16
BALANCES, DECEMBER 31, 2015	**$30**	**$1,012**	**$7,868**	**$705**	**($17)**	**$9,598**	**$88**	**$9,686**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(In Millions)	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$602	$520	$671
Adjustments to reconcile net income to net cash provided by operating activities:			
Net accretion on fixed maturity securities	(70)	(85)	(82)
Depreciation and amortization	466	450	438
Deferred income taxes	113	55	118
Net realized investment (gain) loss	(234)	597	(586)
Other than temporary impairments	96	24	27
Net change in deferred policy acquisition costs	290	(622)	352
Interest credited to policyholder account balances	1,250	1,203	1,248
Net change in future policy benefits	1,274	1,789	1,069
Other operating activities, net	348	(98)	223
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,135	3,833	3,478
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed maturity and equity securities available for sale:			
Purchases	(7,340)	(5,638)	(5,909)
Sales	552	1,535	1,279
Maturities and repayments	2,120	2,410	2,640
Purchases of fair value option securities		(498)	
Repayments of mortgage loans	863	917	602
Fundings of mortgage loans and real estate	(1,750)	(1,243)	(1,345)
Funding of CMBS VIE mortgage loan	(1,050)	(750)	
Proceeds from sale of real estate	3		405
Net change in policy loans	(97)	(79)	(157)
Terminations of derivative instruments, net	159	9	(35)
Proceeds from nonhedging derivative settlements	135	64	86
Payments for nonhedging derivative settlements	(295)	(344)	(628)
Net change in cash collateral received or pledged	(68)	131	(136)
Purchases of and advance payments on aircraft	(1,306)	(1,068)	(1,143)
Proceeds from sale of aircraft	168	266	380
Other investing activities, net	129	323	44
NET CASH USED IN INVESTING ACTIVITIES	(7,777)	(3,965)	(3,917)

(Continued)

The abbreviation CMBS VIE above means commercial mortgage-backed security VIE.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(In Millions)	2015	2014	2013
(Continued)			
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account balances:			
Deposits	$6,075	$5,900	$6,223
Withdrawals	(5,419)	(4,957)	(5,894)
Net change in short-term debt	227	248	(272)
Issuance of long-term debt	1,041	147	1,661
Issuance of CMBS VIE debt	845	676	
Partial retirement of surplus notes			(478)
Payments of long-term debt	(828)	(532)	(836)
Dividend to parent		(200)	(200)
Other financing activities, net	326	70	(21)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,267	1,352	183
Net change in cash and cash equivalents	(1,375)	1,220	(256)
Cash and cash equivalents, beginning of year	3,220	2,000	2,256
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,845	$3,220	$2,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes paid (received), net	($99)	($250)	$160
Interest paid	$376	$324	$294

See Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, aircraft leasing and reinsurance.

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of Pacific Life and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of Pacific Life and its majority owned and controlled subsidiaries and variable interest entities (VIEs) in which the Company is the primary beneficiary. All significant intercompany transactions and balances have been eliminated in consolidation.

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

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

Certain reclassifications have been made to the 2014 and 2013 consolidated financial statements to conform to the 2015 consolidated financial statement presentation.

The Company has evaluated events subsequent to December 31, 2015 through March 8, 2016, the date the consolidated financial statements were available to be issued and has concluded that no events have occurred that require disclosure or adjustment to the consolidated financial statements.

INVESTMENTS

Fixed maturity and equity securities available for sale are reported at estimated fair value, with unrealized gains and losses, net of adjustments related to DAC, future policy benefits and deferred income taxes, recognized as a component of other comprehensive income (OCI). Amortization of premium and accretion of discount on fixed maturity securities is recorded using the effective interest method. For mortgage-backed and asset-backed securities, the determination of effective yield is based on anticipated

prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments.

Investment income consists primarily of interest and dividends, net investment income from partnership interests, prepayment fees on fixed maturity securities and mortgage loans, and income from certain derivatives. Interest is recognized on an accrual basis and dividends are recorded on the ex-dividend date.

The Company's available for sale securities are assessed for OTTI, if impaired. If a decline in the estimated fair value of an available for sale security is deemed to be other than temporary, the OTTI is recognized equal to the difference between the estimated fair value and net carrying amount of the security. If the OTTI for a fixed maturity security is attributable to both credit and other factors, then the OTTI is bifurcated and the non credit-related portion is recognized in OCI while the credit portion is recognized in earnings. If the OTTI is related to credit factors only or management has determined that it is more likely than not going to be required to sell the security prior to recovery, the OTTI is recognized in earnings.

The evaluation of OTTI is a quantitative and qualitative process subject to significant estimates and management judgment. The Company has controls and procedures in place to monitor securities and identify those that are subject to greater analysis for OTTI. The Company has an investment impairment committee that reviews and evaluates securities for potential OTTI at minimum on a quarterly basis.

In evaluating whether a decline in value is other than temporary, the Company considers many factors including, but not limited to, the following: the extent and duration of the decline in value; the reasons for the decline (credit event, currency, interest rate related, or spread widening); the ability and intent to hold the investment for a period of time to allow for a recovery of value; and the financial condition of and near-term prospects of the issuer.

Analysis of the probability that all cash flows will be collected under the contractual terms of a fixed maturity security and determination as to whether the Company does not intend to sell the security and that it is more likely than not that the Company will not be required to sell the security before recovery of the investment are key factors in determining whether a fixed maturity security is other than temporarily impaired.

For mortgage-backed and asset-backed securities, the Company evaluates the performance of the underlying collateral and projected future discounted cash flows. In projecting future discounted cash flows, the Company incorporates inputs from third-party sources and applies reasonable judgment in developing assumptions used to estimate the probability and timing of collecting all contractual cash flows.

In evaluating investment grade perpetual preferred securities, which do not have final contractual cash flows, the Company applies OTTI considerations used for debt securities, placing emphasis on the probability that all cash flows will be collected under the contractual terms of the security and the Company's intent and ability to hold the security to allow for a recovery of value. Perpetual preferred securities are reported as equity securities as they are structured in equity form, but have significant debt-like characteristics, including periodic dividends, call features, credit ratings and pricing similar to debt securities.

Realized gains and losses on investment transactions are determined on a specific identification basis and are included in net realized investment gain (loss).

The Company has elected the fair value option (FVO) method of accounting for a portfolio of U.S. Government securities. The Company elected the FVO in order to report the investments at estimated fair value with changes in the estimated fair value of these securities recognized in net realized investment gain (loss). This accounting treatment will provide a partial offset to the impact of interest rate movements.

Mortgage loans on real estate are carried at their unpaid principal balance, net of deferred origination fees and write-downs. Interest is recognized and discounts and deferred origination fees are amortized to interest income using the effective interest method based on the contractual life of the mortgage loan. The method of recognizing interest or amortization income is based on the contractual life of the mortgage loan. Mortgage loans are considered to be impaired when management estimates that based upon current information and events, it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the mortgage loan agreement. For mortgage loans deemed to be impaired, an impairment loss is recorded when the carrying amount is greater than the Company's estimated fair value of the underlying collateral of the mortgage loan. When the fair value of the underlying collateral of the mortgage loan is greater than the carrying amount, the mortgage loan is not considered to have an impaired loss and no write-down is recorded.

Policy loans are stated at unpaid principal balances.

Other investments primarily consist of investments in partnerships and joint ventures, hedge funds, real estate investments, derivative instruments, non-marketable equity securities, low income housing investments qualifying for tax credits (LIHTC), trading securities, and securities of consolidated investment funds that operate under the Investment Company Act of 1940 (40 Act Funds). Investments in partnerships, joint venture interests and hedge funds are recorded under the cost or equity method of accounting, except those held by consolidated sponsored investment funds (Note 4). As a practical expedient, consolidated investment funds estimate the fair value of interests in the portfolio funds using the net asset value per share as determined by the respective investment manager. The changes in estimated fair value for these assets are recognized in net investment income. Non-marketable equity securities are carried at estimated fair value with unrealized gains or losses recognized in OCI. Trading securities and the securities of the 40 Act Funds are reported at estimated fair value with changes in estimated fair value recognized in net realized investment gain (loss).

Real estate investments are carried at depreciated cost, net of write-downs. For real estate acquired in satisfaction of debt, cost represents fair value at the date of acquisition. Real estate investments are evaluated for impairment based on the future estimated undiscounted cash flows expected to be received during the estimated holding period. When the future estimated undiscounted cash flows are less than the current carrying amount of the property (gross cost less accumulated depreciation), the property is considered impaired and is written-down to its estimated fair value.

Investments in LIHTC are recorded under the effective interest method since they meet certain requirements, including a projected positive yield based solely on guaranteed credits. The amortization of the original investment and the tax credits are recorded in the provision for income taxes.

All derivatives, whether designated in a hedging relationship or not, are required to be recorded at estimated fair value. If the derivative is designated as a cash flow hedge, the effective portion of changes in the estimated fair value of the derivative is recorded in OCI and 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). If the derivative is designated as a fair value hedge, changes in the estimated fair value of the hedging derivative, including amounts measured as ineffectiveness, and changes in the estimated fair value of the hedged item related to the designated risk being hedged, are reported in net realized investment gain (loss). The change in estimated value of the hedged item associated with the risk being hedged is reflected as an adjustment to the carrying amount of the hedged item. For derivative instruments not designated as a hedge, the change in estimated fair value of the derivative is recorded in net realized investment gain (loss).

The periodic cash flows for all derivatives designated as a hedge are recorded consistent with the hedged item on an accrual basis. For derivatives that are hedging securities, these amounts are included in net investment income. For derivatives that are hedging liabilities, these amounts are included in interest credited to policyholder account balances or interest expense, which is included in operating and other expenses. For derivatives not designated as a hedge, the periodic cash flows are reflected in net realized investment gain (loss) on an accrual basis. Upon termination of a cash flow hedging relationship, the accumulated amount in OCI is reclassified into earnings into either net investment income, net realized investment gain (loss), interest credited to policyholder account balances, or operating and other expenses when the forecasted transactions affect earnings. Upon termination of a fair value hedging relationship, the accumulated adjustment to the carrying amount of the hedged item is amortized into either net investment income, interest credited to policyholder account balances, or operating and other expenses over its remaining life.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all investments with a maturity of three months or less from purchase date. Cash equivalents consist primarily of U.S. Treasury bills and money market securities.

RESTRICTED CASH

Restricted cash primarily consists of liquidity reserves related to VIEs, security deposits, commitment fees, cash collateral, cash held in trusts, maintenance reserve payments and rental payments received from certain lessees related to the aircraft leasing business.

DEFERRED POLICY ACQUISITION COSTS

The direct and incremental costs associated with the successful acquisition of new or renewal insurance business; principally commissions, medical examinations, underwriting, policy issue and other expenses; are deferred and recorded as an asset referred to as DAC. DAC related to internally replaced contracts is immediately written off to expense and any new deferrable expenses associated with the replacement are deferred if the contract modification substantially changes the contract. However, if the contract modification does not substantially change the contract, the existing DAC asset remains in place and any acquisition

costs associated with the modification are immediately expensed. The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC.

For universal life (UL), variable annuities and other investment-type contracts, acquisition costs are generally 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.

During reporting periods of negative actual gross profits, DAC amortization may be negative, which would result in an increase to the DAC balance. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable and is also limited to amounts originally deferred plus interest.

Significant assumptions in the development of EGPs include investment returns, surrender and lapse rates, rider utilization, expenses, interest spreads, and mortality margins. The Company's long-term assumption for the underlying separate account investment return ranges from 6.75% to 7.75% depending on the product. 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. The Company may also identify and implement actuarial modeling refinements to projection models that may result in increases or decreases to the DAC asset.

The DAC asset is reviewed at least annually to ensure that the unamortized balance does not exceed expected recoverable EGPs.

AIRCRAFT, NET

The Company records aircraft and other aircraft components at cost less accumulated depreciation. Cost consists of the acquisition price, including interest capitalized during the construction period of a new aircraft, and major additions and modifications. Depreciation to estimated residual values is computed using the straight-line method over the estimated useful life of the aircraft. Major improvements to aircraft are capitalized as incurred and depreciated over the shorter of the remaining useful life of the aircraft or the useful life of the improvement. The Company evaluates carrying amount of aircraft quarterly or based upon changes in market and other physical and economic conditions that indicate the carrying amount of the aircraft may not be recoverable. The Company will record impairments to recognize a loss in the value of the aircraft when management believes that, based on future estimated undiscounted cash flows, the recoverability has been impaired.

GOODWILL

Goodwill represents the excess of acquisition costs over the fair value of net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually or more frequently if events occur or circumstances indicate that the goodwill might be impaired. Goodwill is included in other assets and decreased to $63 million as of December 31, 2015 from $101 million as of December 31, 2014 due to the sale of the Pacific Global Advisors LLC pension advisory business during 2015. There were no goodwill impairments recognized during the years ended December 31, 2015, 2014 and 2013.

POLICYHOLDER ACCOUNT BALANCES

Policyholder account balances on UL and certain investment-type contracts, such as funding agreements and guaranteed interest contracts (GICs), are valued using the retrospective deposit method and are equal to accumulated account values, which consist of deposits received, plus interest credited, less withdrawals and assessments. Other investment-type contracts such as payout annuities without life contingencies are valued using a prospective method that estimates the present value of future contract cash flows at the assumed credited or contract rate. Interest credited to these contracts ranged from 0.2% to 9.1%.

FUTURE POLICY BENEFITS

Annuity reserves, which primarily consist of group retirement, structured settlement and immediate annuities with life contingencies, are equal to the present value of estimated future payments using pricing assumptions, as applicable, for interest rates, mortality, morbidity, retirement age and expenses. Interest rates used in establishing such liabilities ranged from 0.9% to 11.0%.

The Company offers annuity contracts with guaranteed minimum benefits, including guaranteed minimum death benefits (GMDBs) and riders with guaranteed living benefits (GLBs) that guarantee net principal over a ten year holding period or a minimum withdrawal benefit over specified periods, subject to certain restrictions. If the guarantee includes a benefit that is only attainable upon annuitization or is wholly life contingent (e.g., GMDBs or guaranteed minimum withdrawal benefits for life), it is accounted for as an insurance liability (Note 10). All other GLB guarantees are accounted for as embedded derivatives (Note 8).

Policy charges assessed against policyholders that represent compensation to the Company for services to be provided in future periods, or for consideration for origination of the contract, are deferred as an unearned revenue reserves (URR), and recognized in revenue over the expected life of the contract using the same methods and assumptions used to amortize DAC. Unearned revenue related to certain unrealized components in OCI, primarily unrealized gains and losses on securities available for sale, is recorded to equity through OCI.

Life insurance reserves are composed of benefit reserves and additional liabilities. Benefit reserves are valued using the net level premium method on the basis of actuarial assumptions appropriate at policy issue. Mortality and persistency assumptions are generally based on the Company's experience, which, together with interest and expense assumptions, include a margin for possible unfavorable deviations. Interest rate assumptions ranged from 3.0% to 9.3%. Future dividends for participating business are provided for in the liability for future policy benefits. Additional liabilities are held for certain insurance benefit features that have amounts assessed in a manner that is expected to result in profits in earlier years and subsequent losses. The additional liability is valued using a range of scenarios, rather than a single set of best estimate assumptions, which are consistent with assumptions used in estimated gross profits for purposes of amortizing capitalized acquisition costs.

As of December 31, 2015 and 2014, participating experience rated policies paying dividends represent less than 1% of direct life insurance in force.

Estimates of future policy benefit reserves and liabilities are continually reviewed and, as experience develops, are adjusted as necessary. The Company may also identify and implement actuarial modeling refinements to projection models that may result in increases and decreases to the liability for future policy benefits. Such changes in estimates are included in earnings for the period in which such changes occur.

REINSURANCE

The Company has ceded reinsurance agreements with other insurance companies to limit potential losses, reduce exposure arising from larger risks, provide additional capacity for future growth and also assumes reinsurance agreements. As part of a strategic alliance, the Company also reinsures risks associated with policies written by an independent producer group through modified coinsurance and yearly renewable term (YRT) arrangements with this producer group's reinsurance company. The ceding of risk does not discharge the Company from its primary obligations to contract owners. To the extent that the assuming companies become unable to meet their obligations under reinsurance contracts, the Company remains contingently liable. Each reinsurer is reviewed to evaluate its financial stability before entering into each reinsurance contract and throughout the period that the reinsurance contract is in place.

All assets associated with business reinsured on a modified coinsurance basis remain with, and under the control of, the Company. As part of its risk management process, the Company routinely evaluates its reinsurance programs and may change retention limits, reinsurers or other features at any time.

Reinsurance accounting is utilized for ceded and assumed transactions when risk transfer provisions have been met. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss to the reinsurer.

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from their respective revenue and benefit and expense accounts. Prepaid reinsurance premiums, included in other assets, are premiums that are paid in advance for future coverage. Amounts receivable and payable to reinsurers are offset for account settlement purposes for contracts where the right of offset exists, with net reinsurance receivables included in other assets and net reinsurance payables

included in other liabilities. Reinsurance receivables and payables may include balances due from reinsurance companies for paid and unpaid losses.

REVENUES, BENEFITS AND EXPENSES

Premiums from annuity contracts with life contingencies and traditional life and term insurance contracts are recognized as revenue when due. Benefits and expenses are provided against such revenues to recognize profits over the estimated lives of the contracts by providing for liabilities for future policy benefits, expenses for contract administration and DAC amortization.

Receipts for UL and investment-type contracts are reported as deposits to either policyholder account balances or separate account liabilities and are not included in revenue. Policy fees consist of mortality charges, surrender charges and expense charges that have been earned and assessed against related account values during the period and also include the amortization of URR. The timing of policy fee revenue recognition is determined based on the nature of the fees. Benefits and expenses include policy benefits and claims incurred in the period that are in excess of related policyholder account balances, interest credited to policyholder account balances, expenses of contract administration and the amortization of DAC.

Investment advisory fees are primarily fees earned by Pacific Life Fund Advisors LLC (PLFA), a wholly owned subsidiary of Pacific Life, which serves as the investment advisor for the Pacific Select Fund, an investment vehicle provided to the Company's variable universal life (VUL) and variable annuity contract holders, and the Pacific Funds Series Trust (formerly known as Pacific Life Funds), the investment vehicle for the Company's mutual fund products and other funds. These fees are based upon the net asset value of the underlying portfolios and are recorded as earned. Related subadvisory expense is included in operating and other expenses.

Aircraft leases are generally accounted for as operating leases and are structured as triple net leases whereby the lessee is responsible for maintaining the aircraft and paying operational, maintenance and insurance expenses. The aircraft leases require payment in U.S. dollars. Aircraft leasing revenue is recognized on a straight-line basis over the term of the lease agreements. The Company has capital leases in the amount of $100 million and $50 million as of December 31, 2015 and 2014, respectively, which are included in other assets.

DEPRECIATION AND AMORTIZATION

Aircraft and certain other assets are depreciated or amortized using the straight-line method over estimated useful lives, which range from three to 40 years. Depreciation and amortization of aircraft and certain other assets are included in operating and other expenses. Depreciation of investment real estate is computed using the straight-line method over estimated useful lives, which range from five to 30 years, and is included in net investment income.

INCOME TAXES

Pacific Life and its includable subsidiaries are included in the consolidated Federal income tax return and the combined California franchise tax return of PMHC and are allocated tax expense or benefit based principally on the effect of including their operations in these returns under a tax sharing agreement. Certain of the Company's non-insurance subsidiaries also file separate state tax returns, if necessary. Generally, a life insurance company cannot be treated as an includable corporation in a consolidated return with nonlife companies unless it has been a member of the affiliated group for five taxable years. For this reason, the Company's life insurance companies meeting this criterion file separate Federal income tax returns. Some of the Company's non-U.S. subsidiaries are subject to tax in Singapore and other jurisdictions. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years the differences are expected to be recovered or settled.

CONTINGENCIES

The Company evaluates all identified contingent matters on an individual basis. A loss is recorded if probable and reasonably estimable. The Company establishes reserves for these contingencies at the best estimate, or, if no one amount within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range of losses. The Company does not record gain contingencies.

SEPARATE ACCOUNTS

Separate accounts primarily include variable annuity and variable life contracts, as well as other guaranteed and non-guaranteed accounts. Separate account assets are recorded at estimated fair value and represent legally segregated contract holder funds. A

separate account liability is recorded equal to the amount of separate account assets. Deposits to separate accounts, investment income and realized and unrealized gains and losses on the separate account assets accrue directly to contract holders and, accordingly, are not reflected in the consolidated statements of operations or cash flows. Amounts charged to the separate account for mortality, surrender and expense charges are included in revenues as policy fees.

ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined using available market information and appropriate valuation methodologies. However, considerable judgment is often required to interpret market data used to develop the estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, which modifies the Accounting Standards Codification's (Codification) Fair Value Measurement Topic. This ASU requires a reporting entity to exclude any investments for which fair value is measured using net asset value (NAV) as a practical expedient from the fair value hierarchy disclosures. In 2015, the Company early adopted this ASU and applied it retrospectively. This guidance only impacted financial statement disclosures (Note 12) and had no impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, which modifies the Codification's Comprehensive Income Topic. This ASU requires enhanced reporting of amounts reclassified out of accumulated other comprehensive income (AOCI) either on the face of the consolidated financial statements or in the notes to the consolidated financial statements. Nonpublic entities are required to report the effects of reclassifications on net income for annual reporting periods and to report information about the amounts reclassified out of AOCI by component for each reporting period for interim and annual reporting periods. The Company adopted this ASU in 2014 and has included the required annual disclosure in Note 13.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In April 2015, the FASB issued ASU 2015-03, which requires debt issuance costs to be presented in the statement of financial condition as a direct deduction from the associated debt liability. The guidance in the new standard is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. The Company will adopt this ASU retrospectively on January 1, 2016 and adoption will result in a change in presentation of these costs on the consolidated statements of financial condition. Adoption in 2016 will result in a decrease to other assets and debt of $84 million for December 31, 2015.

In February 2015, the FASB issued ASU 2015-02, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain legal entities. All legal entities with which the Company is involved are subject to reevaluation under the revised consolidation model. The amendments modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, and affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The Company will adopt this ASU retrospectively on January 1, 2016. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, which clarifies the principles for recognizing revenue when it transfers promised goods and services to customers in an amount that reflects the consideration to which an entity expects to be entitled to in exchange for those goods and services. This ASU defines a five step process that identifies the various components of the revenue recognition process, identifying the performance obligation and when to recognize revenue when that performance obligation has been met. The Company will adopt this ASU retrospectively for the year ended December 31, 2018. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

2. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

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

The NE DOI has a prescribed accounting practice for certain synthetic GIC reserves that differs from National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* (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 $62 million and $61 million as of December 31, 2015 and 2014, respectively, and has been recorded by Pacific Life. 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 December 31, 2015 and 2014, the reserve for synthetic GICs using the NAIC SAP basis was zero.

STATUTORY NET INCOME AND SURPLUS

Statutory net income of Pacific Life was $520 million, $635 million and $521 million for the years ended December 31, 2015, 2014 and 2013, respectively. Statutory capital and surplus of Pacific Life was $7,762 million and $7,172 million as of December 31, 2015 and 2014, respectively.

AFFILIATED REINSURANCE

Pacific Life cedes certain statutory reserves to affiliated special purpose financial insurance companies and affiliated captive reinsurance companies that are supported by a combination of cash, invested and other assets and third-party letters of credit or note facilities. As of December 31, 2015, Pacific Life's total statutory reserve credit was $1,901 million, of which $1,249 million was supported by third-party letters of credit and note facilities. As of December 31, 2014, Pacific Life's total statutory reserve credit was $1,702 million, of which $1,160 million was supported by third-party letters of credit and note facilities, as described below.

Pacific Life utilizes affiliated reinsurers to mitigate the statutory capital impact of NAIC Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) and NAIC Actuarial Guideline 38 on the Company's UL products with flexible duration no lapse guarantee rider (FDNLGR) benefits. Pacific Alliance Reinsurance Company of Vermont (PAR Vermont) and Pacific Baleine Reinsurance Company (PBRC) are Vermont based special purpose financial insurance companies subject to regulatory supervision by the Vermont Department of Financial Regulation (Vermont Department). PAR Vermont and PBRC are wholly owned subsidiaries of Pacific Life and accredited authorized reinsurers in Nebraska. Pacific Life cedes certain level term life insurance to PBRC and FDNLGR benefits to PAR Vermont and PBRC. Reinsurance ceded to PAR Vermont is net of the reinsurance ceded under an excess of loss reinsurance agreement with a commercial reinsurer. Economic reserves, as defined in the PAR Vermont and PBRC reinsurance agreements, are supported by cash and invested and other assets, including funds withheld at Pacific Life.

Reserves in excess of the economic reserves held at PAR Vermont are supported by a letter of credit agreement provided by a highly rated bank, which has a maximum commitment amount of $843 million and a 20 year term expiring October 2031. The letter of credit agreement is non-recourse to Pacific LifeCorp or any of its affiliates, other than PAR Vermont. The letter of credit has been approved as an admissible asset by the Vermont Department for PAR Vermont statutory accounting. As of December 31, 2015, the letter of credit amounted to $680 million and was held in a trust with Pacific Life as beneficiary. PAR Vermont admitted $677 million and $619 million as an asset in its statutory financial statements as of December 31, 2015 and 2014, respectively.

Reserves in excess of the economic reserves held at PBRC are supported by a note facility with a maximum commitment amount of $400 million. This facility is non-recourse to Pacific Life or any of its affiliates, other than PBRC. Through this facility, PBRC issued a surplus note with a maturity date of December 2043 and received a note receivable in return with a maturity date of December 2038. The note receivable is credit enhanced by a highly rated third-party reinsurer for 20 years with a five year extension. The note receivable has been approved as an admissible asset by the Vermont Department for PBRC statutory accounting. As of December 31, 2015 and 2014, the note receivable amounted to $159 million and $111 million, respectively, and

was held in a trust with Pacific Life as beneficiary. PBRC admitted $159 million and $111 million as an asset in its statutory financial statements as of December 31, 2015 and 2014, respectively.

Pacific Life has reinsurance agreements with Pacific Life Reinsurance (Barbados) Ltd. (PLRB), an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific LifeCorp. The underlying reinsurance is comprised of coinsurance and YRT treaties. Pacific Life retroceded the majority of the underlying YRT U.S. treaties on a 100% coinsurance with funds withheld basis to PLRB (PLRB Agreement). The PLRB Agreement is accounted for under deposit accounting for U.S. GAAP and as reinsurance under statutory accounting principles. The statutory accounting reserve credit is supported by cash, funds withheld at Pacific Life and a $413 million letter of credit issued to PLRB by highly rated third-party banks for the benefit of Pacific Life, which expires August 26, 2016. In connection with the acquisition and reinsurance arrangements between Pacific Life and PLRB, Pacific LifeCorp entered into a capital maintenance agreement and has also agreed to honor PLRB's obligations to the letter of credit provider in the event of default.

Pacific Annuity Reinsurance Company (PARC) is a captive reinsurance company subject to regulatory supervision by the Arizona Department of Insurance. PARC was formed to reinsure benefits provided by variable annuity contracts and contract rider guarantees issued by Pacific Life. Base annuity contracts are reinsured on a modified coinsurance basis and the contract guarantees are reinsured on a coinsurance with funds withheld basis. On December 1, 2012, the effective date of the reinsurance agreement, Pacific Life ceded 5% of its inforce variable annuity business to PARC, after third-party reinsurance, and ceded 5% of new business issued thereafter. PARC is a wholly owned subsidiary of Pacific LifeCorp.

RISK-BASED CAPITAL

Risk-based capital is a method developed by the NAIC to measure the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Additionally, certain risks are required to be measured using actuarial cash flow modeling techniques, subject to formulaic minimums. The adequacy of a company's actual capital is measured by a comparison to the risk-based capital results. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2015 and 2014, Pacific Life, Pacific Life & Annuity Company (PL&A), an Arizona domiciled life insurance company wholly owned by Pacific Life, PAR Vermont, and PBRC all exceeded the minimum risk-based capital requirements.

DIVIDEND RESTRICTIONS

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the State of Nebraska insurance laws. These laws require (i) notification to the NE DOI for the declaration and payment of any dividend and (ii) approval by the NE DOI for accumulated dividends within the preceding twelve months that exceed the greater of 10% of statutory policyholder surplus as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Generally, these restrictions pose no short-term liquidity concerns for Pacific LifeCorp. Based on these restrictions and 2015 statutory results, Pacific Life could pay $608 million in dividends in 2016 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement. Pacific Life did not pay any dividends to Pacific LifeCorp during the year ended December 31, 2015. During the years ended December 31, 2014 and 2013, Pacific Life paid dividends to Pacific LifeCorp of $200 million each year.

The payment of dividends by PL&A to Pacific Life is subject to restrictions set forth in the State of Arizona insurance laws. These laws require (i) notification to the Arizona Department of Insurance (AZ DOI) for the declaration and payment of any dividend and (ii) approval by the AZ DOI for accumulated dividends within the preceding twelve months that exceed the lesser of 10% of statutory surplus as regards to policyholders as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Based on this limitation and 2015 statutory results, PL&A could pay $39 million in dividends to Pacific Life in 2016 without prior regulatory approval. During the years ended December 31, 2015, 2014 and 2013, PL&A paid dividends to Pacific Life of $37 million, $35 million and $35 million, respectively.

3. CLOSED BLOCK

In connection with the Company's conversion to a mutual holding company structure, an arrangement known as a closed block (the Closed Block) was created for the exclusive benefit of certain individual life insurance policies that had an experience based dividend scale in 1997. The Closed Block was designed to give reasonable assurance to holders of the Closed Block policies that policy dividends would not change.

Assets that support the Closed Block, which are primarily included in fixed maturity securities and policy loans, amounted to $260 million and $265 million as of December 31, 2015 and 2014, respectively. Liabilities allocated to the Closed Block, which are primarily included in future policy benefits, amounted to $268 million and $269 million as of December 31, 2015 and 2014, respectively. The net contribution to income from the Closed Block was zero, $3 million and zero for the years ended December 31, 2015, 2014 and 2013, respectively.

4. 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 December 31, 2015 and 2014, the consolidated assets and consolidated liabilities, which the Company has consolidated because it is the primary beneficiary:

	Consolidated VIEs	
	Consolidated Assets	Consolidated Liabilities
December 31, 2015:	*(In Millions)*	
Commercial mortgage-backed securities	$1,805	$1,525
Sponsored investment funds	204	10
Aircraft securitization	857	443
Total	$2,866	$1,978
December 31, 2014:		
Commercial mortgage-backed securities	$750	$676
Sponsored investment funds	125	2
Aircraft securitization	1,022	602
Total	$1,897	$1,280

COMMERCIAL MORTGAGE-BACKED SECURITIES

Pacific Life has purchased significant interests in multiple commercial mortgage-backed security trusts secured by commercial real estate properties (CMBS VIE). The trusts are classified as VIEs as they have no total equity investment at risk and while no future equity infusions should be required to permit the entities to continue their activities, accounting guidance requires trusts with no equity at risk to be classified as VIEs. The Company has determined that it is the primary beneficiary of the VIEs due to the significant control over the collateral the Company has in the event of a default and has consolidated the VIEs into the consolidated financial statements of the Company. Non-recourse debt consolidated by the Company was $1,521 million and $676 million as of December 31, 2015 and 2014, respectively (included in CMBS VIE debt in Note 11).

SPONSORED INVESTMENT FUNDS

The Company has leveraged internal expertise to bring investment strategies/products to sophisticated institutional investors and qualified institutional buyers. Structured as limited partnerships, the Company has provided the initial cash and noncash investments to provide seed capital for these products for the purpose of refining the investment strategies and developing a performance history. Based on the design and operation of the limited partnership arrangements, the Company concluded that

these legal entities are subject to consolidation under the variable interest rules and that the Company is the primary beneficiary. It is anticipated that the Company will continue to maintain a controlling interest in some, but not all, of the limited partnerships. The Company reevaluates its standing as the primary beneficiary on a quarterly basis or upon the occurrence of specified events. Short-term non-recourse debt consolidated by the Company was $10 million and $2 million as of December 31, 2015 and 2014, respectively (included in other VIE debt in Note 11). The line of credit has a $15 million borrowing capacity. The Company's unfunded commitment to the limited partnerships was $75 million and $119 million as of December 31, 2015 and 2014, respectively.

AIRCRAFT SECURITIZATION

During 2005, Aviation Capital Group Corp., a wholly owned subsidiary of Pacific Life engaged in the acquisition and leasing of commercial aircraft (ACG), sponsored a financial asset securitization secured by aircraft. The transaction was classified as a VIE as the total equity investment at risk was insufficient to finance its activities without additional subordinated support. ACG receives ongoing compensation for its role as the remarketing and administrative agent and for various aircraft-related services.

ACG is the primary beneficiary of the securitization because it owns 100% of the equity and has a controlling financial interest in this VIE. As such, the securitization is included in the consolidated financial statements of the Company. Non-recourse debt consolidated by the Company was $282 million and $401 million as of December 31, 2015 and 2014, respectively (included in ACG VIE debt in Note 11).

The following table presents the carrying amount and classification of the assets, relating to VIEs in which the Company holds a variable interest but does not consolidate because it is not the primary beneficiary. The Company has determined that it is not the primary beneficiary of these VIEs because it does not have the power to direct their most significant financial activities. Also presented is the maximum exposure to loss which includes the carrying amount and any unfunded commitments assuming the commitments are fully funded.

	Non-consolidated VIEs	
	Carrying Amount	Maximum Exposure to Loss
	(In Millions)	
December 31, 2015:		
Fixed maturity securities	$56	$56
Mortgage loans	60	104
Other investments	847	1,316
Total	$963	$1,476
December 31, 2014:		
Fixed maturity securities	$54	$54
Other investments	828	1,254
Total	$882	$1,308

FIXED MATURITY SECURITIES

The Company purchased primarily investment grade beneficial interests issued from bankruptcy-remote special purpose entities, which are collateralized by financial assets including corporate debt.

MORTGAGE LOANS

Included in mortgage loans is a non-recourse construction loan to a non-consolidated VIE.

OTHER INVESTMENTS

The limited partnership investments include private equity funds and equity in real estate which are reported in other investments. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company's equity investments in comparison to the original amount issued by the VIEs.

OTHER NON-CONSOLIDATED VIEs NOT INCLUDED IN THE TABLE ABOVE

As part of normal investment activities, the Company will make passive investments in structured securities for which it is not the sponsor. The structured security investments 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. The Company's maximum exposure to loss for these investments is limited to its carrying amount. See Note 6 for the net carrying amount and estimated fair value of the structured security investments.

5. DEFERRED POLICY ACQUISITION COSTS

Components of DAC are as follows:

	Years Ended December 31,		
	2015	2014	2013
		(In Millions)	
Balance, January 1	$4,742	$4,214	$4,329
Additions:			
Capitalized during the year	544	608	621
Amortization:			
Allocated to commission expenses	(806)	15	(955)
Allocated to operating expenses	(28)	(1)	(18)
Total amortization	(834)	14	(973)
Allocated to OCI	267	(94)	237
Balance, December 31	$4,719	$4,742	$4,214

During the years ended December 31, 2015, 2014 and 2013, the Company revised certain assumptions utilized to develop EGPs for its products subject to DAC amortization. This resulted in an increase in DAC amortization expense of $51 million for the year ended December 31, 2015 and decreases in DAC amortization expense of $39 million and $43 million for the years ended December 31, 2014 and 2013, respectively. The revised EGPs also resulted in increased URR amortization of $27 million for the year ended December 31, 2015 and decreased URR amortization of $128 million and $6 million for the years ended December 31, 2014 and 2013, respectively.

Components of the capitalized sales inducement balance included in the DAC asset are as follows:

	Years Ended December 31,		
	2015	2014	2013
		(In Millions)	
Balance, January 1	$667	$597	$638
Deferred costs capitalized during the year	17	29	38
Amortization of deferred costs	(101)	41	(79)
Balance, December 31	$583	$667	$597

6. 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 available for sale represents amortized cost adjusted for OTTI recognized in earnings and terminated fair value hedges. The net carrying amount of equity securities available for sale represents cost adjusted for OTTI. 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)			
December 31, 2015:				
U.S. Government	$49	$8		$57
Obligations of states and political subdivisions	815	125	$2	938
Foreign governments	546	52	6	592
Corporate securities	31,727	1,630	691	32,666
RMBS	2,490	115	49	2,556
CMBS	796	24	7	813
Collateralized debt obligations	55	10		65
Other asset-backed securities	993	57	12	1,038
Total fixed maturity securities	$37,471	$2,021	$767	$38,725
Perpetual preferred securities	$84	$6	$4	$86
Other equity securities	1	1		2
Total equity securities	$85	$7	$4	$88

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
	(In Millions)			
December 31, 2014:				
U.S. Government	$47	$9		$56
Obligations of states and political subdivisions	853	164		1,017
Foreign governments	591	70	$2	659
Corporate securities	27,275	2,592	148	29,719
RMBS	2,597	150	43	2,704
CMBS	626	32	1	657
Collateralized debt obligations	54	16		70
Other asset-backed securities	717	64	1	780
Total fixed maturity securities	$32,760	$3,097	$195	$35,662
Perpetual preferred securities	$127	$7	$9	$125
Other equity securities	1	5		6
Total equity securities	$128	$12	$9	$131

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of December 31, 2015, 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		Estimated Fair Value
		Gains	Losses	
	(In Millions)			
Due in one year or less	$1,416	$25	$5	$1,436
Due after one year through five years	6,555	446	71	6,930
Due after five years through ten years	14,485	389	385	14,489
Due after ten years	10,681	955	238	11,398
	33,137	1,815	699	34,253
Mortgage-backed and asset-backed securities	4,334	206	68	4,472
Total fixed maturity securities	$37,471	$2,021	$767	$38,725

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 investments, which include equity securities available for sale and cost method investments.

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2015:			
Obligations of states and political subdivisions	3	$134	$2
Foreign governments	10	62	6
Corporate securities	989	10,785	691
RMBS	101	972	49
CMBS	17	273	7
Other asset-backed securities	60	533	12
Total fixed maturity securities	1,180	12,759	767
Perpetual preferred securities	4	18	4
Other investments	4	18	5
Total other investments	8	36	9
Total	1,188	$12,795	$776

	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, 2015:						
Obligations of states and political subdivisions	3	$134	$2			
Foreign governments	7	43	5	3	$19	$1
Corporate securities	831	9,473	413	158	1,312	278
RMBS	31	467	5	70	505	44
CMBS	17	273	7			
Other asset-backed securities	57	527	10	3	6	2
Total fixed maturity securities	946	10,917	442	234	1,842	325
Perpetual preferred securities	2	9	1	2	9	3
Other investments	4	18	5			
Total other investments	6	27	6	2	9	3
Total	952	$10,944	$448	236	$1,851	$328

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2014:			
Foreign governments	3	$18	$2
Corporate securities	412	3,493	148
RMBS	80	630	43
CMBS	10	91	1
Other asset-backed securities	12	60	1
Total fixed maturity securities	517	4,292	195
Perpetual preferred securities	4	36	9
Other investments	2	14	1
Total other investments	6	50	10
Total	523	$4,342	$205

	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, 2014:						
Foreign governments				3	$18	$2
Corporate securities	229	$1,512	$55	183	1,981	93
RMBS	26	193	3	54	437	40
CMBS				10	91	1
Other asset-backed securities				12	60	1
Total fixed maturity securities	255	1,705	58	262	2,587	137
Perpetual preferred securities				4	36	9
Other investments	2	14	1			
Total other investments	2	14	1	4	36	9
Total	257	$1,719	$59	266	$2,623	$146

The gross unrealized losses on available for sale securities and other investments in the tables above increased from $205 million as of December 31, 2014 to $776 million as of December 31, 2015. This increase is primarily due to increases in interest rates, general credit spread widening, and declines in the energy, metals and mining sectors, as a result of declining oil, natural gas, and commodity prices. Included in corporate securities above is a portion of the Company's net exposure to fixed maturity securities in the energy, metals and mining sectors, which was $3.3 billion as of December 31, 2015, with a net unrealized loss of $247 million. As of December 31, 2015, 90% of investments in these sectors were investment grade.

The Company has evaluated fixed maturity securities available for sale and other investments with gross unrealized losses and has determined that the unrealized losses are temporary. The Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments 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 December 31, 2015.

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	$378	$376	26%					26%
AA	30	30	2%	2%				
A	14	15	1%	1%				
BAA	101	106	7%	5%	2%			
BA and below	910	921	64%	12%	29%	19%	4%	
Total	$1,433	$1,448	100%	20%	31%	19%	4%	26%
Alt-A RMBS:								
AAA	$1	$1	0%					
AA	26	27	7%	7%				
A	12	13	3%	1%	2%			
BAA	27	28	7%	4%	3%			
BA and below	308	285	83%	14%	16%	23%	30%	
Total	$374	$354	100%	26%	21%	23%	30%	0%
Sub-prime RMBS:								
AAA	$14	$13	7%	7%				
BAA	55	55	29%	29%				
BA and below	119	118	64%	55%	7%	1%	1%	
Total	$188	$186	100%	91%	7%	1%	1%	0%
CMBS:								
AAA	$63	$67	8%					8%
AA	162	174	20%	7%				13%
A	388	390	49%					49%
BAA	147	146	18%					18%
BA and below	36	36	5%					5%
Total	$796	$813	100%	7%	0%	0%	0%	93%

Prime mortgages are loans made to borrowers with strong credit histories, whereas sub-prime mortgage lending is the origination of residential mortgage loans to borrowers 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 greater use of affordable 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.

During 2015, the Company initiated a securities lending program whereby the Company lends fixed maturity securities to financial institutions in short-term arrangements. The Company requires cash collateral equal to 102% of the estimated fair value of the loaned securities. All securities lending agreements are callable by the Company at any time. The contractual maturity on all securities lending arrangements is overnight and continuous. The following table presents the Company's security loans outstanding and the corresponding collateral held:

	December 31, 2015
	(In Millions)
Security loans outstanding, estimated fair value [(1)]	$157
Reinvestment portfolio, estimated fair value [(2)]	161
Cash collateral liability [(3)]	161

[(1)] Included within fixed maturity securities available for sale, at estimated fair value and comprised of corporate securities.
[(2)] The reinvestment portfolio acquired with the cash collateral consists primarily of investments in reverse repurchase agreements collateralized by U.S. Treasuries and is included in cash and cash equivalents.
[(3)] Included in other liabilities.

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

	Years Ended December 31,		
	2015	2014	2013
	(In Millions)		
Fixed maturity securities	$1,688	$1,629	$1,550
Equity securities	4	5	27
Mortgage loans	582	451	434
Real estate	103	102	120
Policy loans	201	202	201
Partnerships and joint ventures	106	165	137
Other	37	21	10
Gross investment income	2,721	2,575	2,479
Investment expense	164	167	189
Net investment income	$2,557	$2,408	$2,290

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

	Years Ended December 31,		
	2015	2014	2013
	(In Millions)		
Fixed maturity securities:			
Gross gains on sales	$26	$47	$70
Gross losses on sales	(8)	(14)	(7)
Total fixed maturity securities	18	33	63
Equity securities:			
Gross gains on sales	5	7	34
Total equity securities	5	7	34
FVO securities and trading securities	(33)	69	2
Real estate	2	(1)	77
Variable annuity GLB embedded derivatives	60	(706)	1,144
Variable annuity GLB policy fees	209	199	195
Variable annuity derivatives - total return swaps	(21)	(96)	(469)
Variable annuity derivatives - futures	(46)	(96)	(43)
Fixed indexed annuity embedded derivatives	(5)	(27)	(13)
Fixed indexed annuity derivatives - futures	(2)	21	
Equity put options		(32)	(359)
Synthetic GIC policy fees	44	44	42
Foreign currency and interest rate swaps	25	26	(96)
Life indexed account embedded derivatives	51	(136)	(153)
Life indexed account derivatives - call options	(58)	126	154
Other	(15)	(28)	8
Net realized investment gain (loss)	$234	($597)	$586

The tables below summarize the OTTI by investment type:

	Recognized in Earnings	Included in OCI	Total
		(In Millions)	
Year ended December 31, 2015:			
Corporate securities	$70		$70
RMBS	2	$6	8
Perpetual preferred securities	9		9
OTTI - fixed maturity and equity securities	81	6	87
Mortgage loans	11		11
Other investments	4		4
Total OTTI	$96	$6	$102
Year ended December 31, 2014:			
Corporate securities	$2		$2
RMBS	5	$4	9
Perpetual preferred securities	2		2
OTTI - fixed maturity and equity securities	9	4	13
Mortgage loans	14		14
Real estate	1		1
Total OTTI	$24	$4	$28
Year ended December 31, 2013:			
Corporate securities	$11		$11
RMBS	7	$6	13
OTTI - fixed maturity securities	18	6	24
Real estate	9		9
Total OTTI	$27	$6	$33

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

	Years Ended December 31,	
	2015	2014
	(In Millions)	
Cumulative credit loss, January 1	$188	$217
Additions for credit impairments recognized on:		
Securities previously other than temporarily impaired	2	4
Securities not previously other than temporarily impaired		1
Total additions	2	5
Reductions for credit impairments previously recognized on:		
Securities due to an increase in expected cash flows and time value of cash flows	(3)	(5)
Securities sold		(29)
Total subtractions	(3)	(34)
Cumulative credit loss, December 31	$187	$188

The tables below present 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)	
December 31, 2015:			
Obligations of states and political subdivisions		$2	$2
Foreign governments		6	6
Corporate securities	$2	689	691
RMBS	35	14	49
CMBS		7	7
Other asset-backed securities		12	12
Total fixed maturity securities	$37	$730	$767
Perpetual preferred securities		$4	$4
Total equity securities	-	$4	$4
December 31, 2014:			
Foreign governments		$2	$2
Corporate securities		148	148
RMBS	$34	9	43
CMBS		1	1
Other asset-backed securities		1	1
Total fixed maturity securities	$34	$161	$195
Perpetual preferred securities		$9	$9
Total equity securities	-	$9	$9

The change in unrealized gain (loss) on investments in available for sale securities is as follows:

	Years Ended December 31,		
	2015	2014	2013
		(In Millions)	
Available for sale securities:			
Fixed maturity	($1,648)	$1,380	($1,897)
Equity		(4)	11
Total available for sale securities	($1,648)	$1,376	($1,886)

Trading securities, included in other investments, totaled $209 million and $224 million as of December 31, 2015 and 2014, respectively. The cumulative net unrealized gain (loss) on trading securities held as of December 31, 2015 and 2014 were ($2) million and $14 million, respectively. Net unrealized gain (loss) recognized in net realized investment gain (loss) on trading securities still held at the reporting date were ($4) million, $1 million and $2 million as of December 31, 2015, 2014 and 2013, respectively.

FVO securities consist of U.S. Government securities. FVO securities totaled $536 million and $563 million as of December 31, 2015 and 2014, respectively. The change in unrealized gain (loss) on FVO securities is recognized in net realized investment gain (loss) and was ($27) million and $66 million for the years ended December 31, 2015 and 2014, respectively. Interest income earned from FVO securities is recorded in net investment income and was $17 million and $8 million for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, fixed maturity securities of $12 million were on deposit with state insurance departments to satisfy regulatory requirements.

Mortgage loans totaled $11,092 million and $9,327 million as of December 31, 2015 and 2014, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of December 31, 2015, $2,230 million, $1,686 million, $1,421 million, $1,330 million and $1,150 million were located in Texas, New York, California, Washington and District of Columbia, respectively. Included in the December 31, 2015 amount for Texas and New York are $1,050 million and $750 million, respectively, consolidated from the CMBS VIE (Note 4). As of December 31, 2015, $283 million and $196 million were located in Canada and the United Kingdom (UK), respectively. The Company did not have any mortgage loans with accrued interest more than 180 days past due as of December 31, 2015 or 2014. As of December 31, 2015, there was no single mortgage loan investment that exceeded 10% of stockholder's equity.

The Company reviews the performance and credit quality of the mortgage loan portfolio on an on-going basis, including loan payment and collateral performance. Collateral performance includes a review of the most recent collateral inspection reports and financial statements. Analysts track each loan's debt service coverage ratio (DCR) and loan-to-value ratio (LTV). The DCR compares the collateral's net operating income to its debt service payments. DCRs less than 1.0 times indicate that the collateral operations do not generate enough income to cover the loan's current debt payments. A larger DCR indicates a greater excess of net operating income over the debt service. The LTV compares the amount of the loan to the fair value of the collateral and is commonly expressed as a percentage. LTVs greater than 100% indicate that the loan amount exceeds the collateral value. A smaller LTV percentage indicates a greater excess of collateral value over the loan amount.

The loan review process will result in each loan being placed into a No Credit Concern category or one of three levels: Level 1 Minimal Credit Concern, Level 2 Moderate Credit Concern or Level 3 Significant Credit Concern. Loans in No Credit Concern category are performing and no issues are noted. The collateral exhibits a strong DCR and LTV and there are no near term maturity concerns. The loan credit profile and borrower sponsorship have not experienced any significant changes and remain strong. For construction loans, projects are progressing as planned with no significant cost overruns or delays.

Level 1 loans are experiencing negative market pressure and outlook due to economic factors. Financial covenants may have been triggered due to declines in performance. Credit profile and/or borrower sponsorship remain stable but require monitoring. Near term (6 months or less) maturity requires monitoring due to negative trends. No impairment loss concerns exist under current conditions, however some possibility of loss may exist under stressed scenarios or changes in sponsorship financial strength.

Level 2 loans are experiencing significant or prolonged negative market pressure and uncertain outlook due to economic factors; financial covenants may have been triggered due to declines in performance and/or borrower may have requested covenant relief. Loan credit profile, borrower sponsorship and/or collateral value may have declined or give cause for concern. Near term maturity (12 months or less) coupled with negative market conditions, property performance and value and/or borrower stability result in increased refinance risk.

Level 3 loans are experiencing prolonged and/or severe negative market trends, declines in collateral performance and value, and/or borrower financial difficulties exist. Borrower may have asked for modification of loan terms. Without additional capital infusion and/or acceptable modification to existing loan terms, default is likely and foreclosure the probable alternative. Impairment loss is possible depending on current fair market value of the collateral. This category includes loans in default and previously impaired restructured loans that underperform despite modified terms and/or for which future loss is probable.

Loans classified as Level 2 or Level 3 are placed on a watch list and monitored weekly. Loans that have been identified as Level 3 are evaluated to determine if the loan is impaired. A loan is impaired if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. See Note 12.

As of December 31, 2015, there were 16 loans with a book value of $153 million that were considered impaired and an impairment loss of $12 million (gross of reinsurance of $1 million) was recognized for the year ended December 31, 2015 as the fair value of the underlying collateral of two of these loans was lower than their carrying amount. No impairment loss was recorded on the other 14 loans since the estimated fair value of the collateral was higher than their carrying amount. As of December 31, 2014, there were six loans with a book value of $62 million that were considered impaired. As the estimated fair value of the collateral on three of these loans was lower than their carrying amount, an impairment loss of $18 million (gross of reinsurance of $4 million) was recorded. No impairment loss was recorded on the other three loans since the estimated fair value of the collateral was higher than their carrying amount. Separately during 2014, one loan totaling $40 million was returned to the Company through a deed in lieu of foreclosure process and became a real estate property investment. As of December 31, 2013, there were two loans with a book value of $6 million that were considered impaired. As the estimated fair value of the collateral on these loans was higher than their carrying amount, no impairment loss was recorded.

The following tables set forth mortgage loan credit levels as of December 31, 2015 and 2014 (*$ In Millions*):

	December 31, 2015									
	No Credit Concern		Level 1 Minimal Credit Concern		Level 2 Moderate Credit Concern		Level 3 Significant Credit Concern		Total	
Property Type	Carrying Amount	Weighted Average DCR	Carrying Amount	Weighted Average DCR	Carrying Amount	Weighted Average DCR	Carrying Amount	Weighted Average DCR	Carrying Amount	Weighted Average DCR
Apartment	$640	1.79	$143	1.24	$46	1.06			$829	1.65
Golf course	11	2.64	17	0.69	59	1.47	$55	0.87	142	1.23
Hotel/Lodging	718	2.12			175	0.70			893	1.84
Industrial							18	1.70	18	1.70
Mobile home park	195	2.49							195	2.49
Office	3,818	2.03					21	0.32	3,839	2.02
Office - VIE	750	3.00							750	3.00
Residential	6	1.44							6	1.44
Resort	478	2.94							478	2.94
Retail	1,613	2.22							1,613	2.22
Retail - VIE	1,050	1.14							1,050	1.14
Construction	1,279								1,279	
Total mortgage loans	$10,558	2.09	$160	1.18	$280	0.92	$94	0.91	$11,092	2.03

	December 31, 2014									
	No Credit Concern		Level 1 Minimal Credit Concern		Level 2 Moderate Credit Concern		Level 3 Significant Credit Concern		Total	
Property Type	Carrying Amount	Weighted Average DCR	Carrying Amount	Weighted Average DCR	Carrying Amount	Weighted Average DCR	Carrying Amount	Weighted Average DCR	Carrying Amount	Weighted Average DCR
Apartment	$573	1.67	$164	1.07	$46	0.95			$783	1.50
Golf course	11	2.45	158	1.03	19	1.41	$1	1.04	189	1.15
Hotel/Lodging	905	1.96							905	1.96
Industrial							18	0.95	18	0.95
Mobile home park	117	2.29							117	2.29
Office	3,869	2.09					25	0.05	3,894	2.08
Office - VIE	750	3.11							750	3.11
Resort	479	3.24							479	3.24
Retail	1,168	1.89							1,168	1.89
Construction	1,024								1,024	
Total mortgage loans	$8,896	2.19	$322	1.05	$65	1.08	$44	0.44	$9,327	2.12

Real estate investments totaled $345 million and $329 million as of December 31, 2015 and 2014, respectively. The Company had no real estate investment impairments during the year ended December 31, 2015. As of December 31, 2014, there were four properties with a book value prior to impairment measurement of $10 million that were considered impaired and an impairment loss of $1 million was recognized as the fair value of these properties was lower than their carrying amount. As of December 31, 2013, there were four properties with a book value prior to measurement of $20 million that were considered impaired and an impairment loss of $9 million was recognized as the fair value of these properties was lower than their carrying amount. See Note 12.

7. AIRCRAFT, NET

Aircraft, net, consists of the following:

	December 31, 2015	December 31, 2014
	(In Millions)	
Aircraft	$9,152	$8,453
Aircraft held by consolidated VIEs	1,097	1,307
	10,249	9,760
Accumulated depreciation	1,942	1,943
Aircraft, net	$8,307	$7,817

As of December 31, 2015, domestic and foreign future minimum rentals scheduled to be received under the noncancelable portion of leases are as follows (*In Millions*):

	2016	2017	2018	2019	2020	Thereafter
Domestic	$142	$130	$123	$120	$120	$300
Foreign	749	694	634	546	439	1,198
Total leases	$891	$824	$757	$666	$559	$1,498

Included in the table above are aircraft subleased to airlines with lease maturity dates ranging from 2021 to 2024 with total future rentals of $189 million. The revenue related to these aircraft, included in aircraft leasing revenue, was $27 million, $27 million, and $22 million for the years ended December 31, 2015, 2014 and 2013, respectively. During 2011 to 2013, these aircraft were sold to third parties and subsequently leased back under operating leases with maturity dates ranging from 2023 to 2025 with total minimum future lease commitments on these operating leases of $181 million.

As of December 31, 2015 and 2014, aircraft under operating lease with a carrying amount of $2,871 million and $3,462 million, respectively, were assigned as collateral to secure debt (Notes 4 and 11).

During the years ended December 31, 2015, 2014 and 2013, aircraft impairments of $39 million, $37 million and $28 million, respectively, were recognized and included in operating and other expenses. See Note 12.

Three and nine aircraft were not subject to a signed lease or sales commitment, collectively representing approximately 1% and 2% of the carrying amount of aircraft as of December 31, 2015 and 2014, respectively.

During the years ended December 31, 2015, 2014 and 2013, gain (loss) on the sale of aircraft of ($1) million, $8 million and $7 million, respectively, were recognized and included in other income. Aircraft held for sale totaled $244 million and $65 million as of December 31, 2015 and 2014, respectively, and are included in aircraft, net.

During 2006, ACG and a bank sponsored a 50/50 joint venture. As ACG maintained control over the joint venture activities, ACG had a controlling financial interest and consolidated it as a subsidiary. During 2015, the non-recourse debt was paid off (Note 11) and ACG assumed the bank's unfunded portion of the liabilities in exchange for the bank's 50% equity interest. As a result, the noncontrolling interest related to this joint venture of $30 million was reduced to zero as of December 31, 2015.

See Note 18 for future aircraft purchase commitments.

8. DERIVATIVES AND HEDGING ACTIVITIES

The Company primarily utilizes derivative instruments to manage its exposure to interest rate risk, foreign currency risk, equity risk, and credit 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, exchange-traded futures 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 consolidated statements of financial condition. The Company applies hedge accounting by designating derivative instruments as either fair value or cash flow hedges on the inception date of the hedging relationship. At the inception of the hedging relationship, the Company formally documents its risk management objective and strategy for undertaking the hedging transaction. In this documentation, the Company specifically identifies the asset, liability, firm commitment, or forecasted transaction that has been designated as the hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally assesses and measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy.

DERIVATIVES NOT DESIGNATED AS HEDGING

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 GLBs are considered embedded derivatives.

GLBs on variable annuity contracts issued between January 1, 2007 and March 31, 2009 are partially reinsured by third party reinsurers. 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 these GLBs is considered an embedded derivative. The Company also reinsures certain variable annuity contracts with guaranteed minimum benefits to an affiliated reinsurer.

The Company employs hedging strategies (variable annuity derivatives) to mitigate equity risk associated with the GLBs not covered by reinsurance. The Company utilizes total return swaps based upon the S&P 500 Index and the MSCI EAFE (Europe, Australasia and Far East) Index and exchange-traded equity futures based upon broad equity market indices to economically hedge the equity risk of the guarantees in its variable annuity products. The total return swaps provide periodic payments to the Company in exchange for the return of the S&P 500 and MSCI EAFE indices in the form of a payment or receipt, depending on whether the return relative to the index on trade date is positive or negative. In exchange-traded futures transactions, the Company agrees to purchase or sell a specified number of contracts, the values of which are determined by the underlying equity indices, and to post variation margin on a daily basis in an amount equal to the change in the daily estimated fair value of those contracts. The Company also utilizes interest rate swaps to manage interest rate risk in variable annuity GLBs.

The Company offers a fixed indexed annuity product where interest is credited to the policyholder's account balance based on equity index changes. A policyholder may allocate the contract's net accumulated value to one or a combination of the following: fixed return account at a guaranteed interest rate to be no less than 1% for a specified period of time, one or two-year S&P 500 indexed account with caps, or one or two-year global indexed account with caps. The indexed products contain embedded derivatives. The Company utilizes exchange-traded equity futures based upon broad market indices and total return swaps based upon the MSCI EAFE index to economically hedge the credit paid to the policyholder on the underlying equity index.

The Company used equity put options to hedge equity and credit risks. These equity put options involved the exchange of either an upfront payment or periodic fixed rate payments for the return, at the end of the option agreement, of the equity index below a specified strike price.

The Company issues synthetic GICs to Employee Retirement Income Security Act of 1974 (ERISA) qualified defined contribution employee benefit plans (ERISA Plan) that are considered derivatives. The ERISA Plan uses the contracts in its stable value fixed income option. The Company receives a fee, recognized in net realized investment gain (loss), for providing book value accounting for the ERISA Plan stable value fixed income option. In the event that plan participant elections exceed the estimated fair value of the assets or if the contract is terminated and at the end of the termination period the book value under the contract exceeds the estimated fair value of the assets, then the Company is required to pay the ERISA Plan the difference between book value and estimated fair value. The Company mitigates the investment risk through pre-approval and monitoring of the investment guidelines, requiring high quality investments and adjustments to the plan crediting rates to compensate for unrealized losses in the portfolios. The estimated fair value of the derivative is zero as of December 31, 2015 and 2014.

Foreign currency interest rate swap agreements are used to convert fixed or floating rate foreign-denominated assets or liabilities to U.S. dollar fixed or floating rate assets or liabilities. A foreign currency interest rate swap involves 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-upon exchange rate. There are also periodic exchanges of interest payments in the two currencies at specified intervals, calculated using agreed-

upon interest rates, exchange rates, and the exchanged principal amounts. The Company enters into these agreements primarily to manage the currency risk associated with investments and liabilities that are denominated in foreign currencies. The main currencies that the Company economically hedges are the euro, British pound, Canadian dollar, and Japanese yen.

Interest rate swaps are used by the Company to reduce market risk from changes in interest rates and other interest rate exposure arising from duration mismatches between assets and liabilities. An interest rate swap agreement involves 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.

The Company offers life insurance products with indexed account options. The interest credited on the indexed accounts is a function of the underlying index. Indexed accounts currently offered by the Company include: one-year S&P 500 indexed account currently capped at 8% to 11%, one-year S&P 500 indexed uncapped account currently with a 5% threshold, one-year international indexed account currently capped at 11%, two-year S&P 500 indexed account currently capped at 30% and five-year S&P 500 indexed uncapped account. The life insurance products with indexed accounts contain embedded derivatives.

The Company utilizes call options to hedge the credit paid to the policyholder on the underlying index for its life insurance products with indexed account options. 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 subject to a cap, net of option premiums and the settlements are recognized in net realized investment gain (loss).

The Company had the following outstanding derivatives not designated as a hedge:

	Notional Amount	
	December 31,	
	2015	2014
	(In Millions)	
Variable annuity GLB embedded derivatives	$31,562	$33,717
Variable annuity derivatives - total return swaps	1,683	1,445
Variable annuity derivatives - futures	888	758
Variable annuity derivatives - interest rate swaps	110	135
Fixed indexed annuity embedded derivatives	2,638	1,622
Fixed indexed annuity derivatives - total return swaps	12	
Fixed indexed annuity derivatives - futures	410	152
Synthetic GICs	21,451	21,587
Foreign currency and interest rate swaps	1,225	2,721
Life indexed account embedded derivatives	3,251	2,421
Life indexed account derivatives - call options	3,528	2,519
Other	778	345

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 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. Notional amounts for variable annuity GLB embedded derivatives represent deposits into variable annuity contracts covered by embedded derivative riders as a measurement of volume. 13.0% and 13.1% of these notional amounts are reinsured by third-party reinsurers as of December 31, 2015 and 2014, respectively. 4.1% of these notional amounts are reinsured by an affiliated reinsurer as of December 31, 2015 and 2014.

The following table summarizes amounts recognized in net realized investment gain (loss) for derivatives not designated as a hedge. 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 $191 million, $288 million and $554 million for the years ended December 31, 2015, 2014 and 2013, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Income on Derivatives		
	Years Ended December 31,		
	2015	2014	2013
		(In Millions)	
Variable annuity derivatives - total return swaps	$2	$27	($96)
Equity put options		(23)	(259)
Foreign currency and interest rate swaps	67	1	(75)
Life indexed account derivatives - call options	59	206	208
Other	(5)		2
Embedded derivatives:			
Variable annuity GLB embedded derivatives	60	(706)	1,144
Fixed indexed annuity embedded derivatives	(5)	(27)	(13)
Life indexed account embedded derivatives	51	(136)	(153)
Other		(2)	(2)
Total	$229	($660)	$756

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

The Company primarily utilizes foreign currency and interest rate swaps to manage its exposure to variability in cash flows due to changes in foreign currencies and in benchmark interest rates. These cash flows include those associated with existing assets and liabilities. The maximum length of time over which the Company is hedging its exposure to variability in future cash flows for forecasted transactions does not exceed 6 years.

The Company had outstanding foreign currency and interest rate swaps designated as cash flow hedges with notional amounts of $310 million and $453 million as of December 31, 2015 and 2014, respectively. The Company had gains recognized in OCI for changes in estimated fair value of foreign currency and interest rate swaps designated as cash flow hedges of $7 million, $18 million and $42 million for the years ended December 31, 2015, 2014 and 2013, respectively. For the years ended December 31, 2015, 2014 and 2013, all of the hedged forecasted transactions for designated cash flow hedges were determined to be probable of occurring.

Hedge ineffectiveness related to cash flow hedges was zero, $1 million and zero for the years ended December 31, 2015, 2014 and 2013, respectively.

Amounts reclassified from AOCI to earnings resulting from the discontinuance of cash flow hedges due to forecasted cash flows that were no longer probable of occurring were zero for the years ended December 31, 2015, 2014 and 2013. Over the next twelve months, the Company anticipates that $2 million of deferred gains on derivative instruments in AOCI will be reclassified to earnings consistent with when the hedged forecasted transaction affects earnings.

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

The Company had no fair value hedges as of December 31, 2015 and 2014.

CONSOLIDATED FINANCIAL STATEMENT IMPACT

Derivative instruments are recorded on the Company's consolidated statements of financial condition at estimated fair value and are presented as assets or liabilities based upon 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 for information on the Company's estimated fair value measurements and disclosure.

	Asset Derivatives Estimated Fair Value			Liability Derivatives Estimated Fair Value		
	December 31,			December 31,		
	2015	2014		2015	2014	
	(In Millions)			*(In Millions)*		
Derivatives designated as hedging instruments:						
Foreign currency and interest rate swaps		$3	[1]			
	$5		[5]	$12	$22	[5]
Total derivatives designated as hedging instruments	5	3		12	22	
Derivatives not designated as hedging instruments:						
Variable annuity derivatives - total return swaps	12	3	[1]	5	8	[1]
	3	3	[5]	2	4	[5]
Variable annuity derivatives - interest rate swaps	3	2	[1]	1	3	[1]
Foreign currency and interest rate swaps	108	34	[1]	8	20	[1]
	13	32	[5]	28	133	[5]
Life indexed account derivatives - call options	66	146	[1]	1		[1]
	19	48	[5]	1		[5]
Embedded derivatives:						
Variable annuity GLB embedded derivatives (including reinsurance contracts)	190	204	[2]	1,200	1,274	[3]
Fixed indexed annuity embedded derivatives				167	110	[4]
Life indexed account embedded derivatives				191	278	[4]
Other				1		[2]
				7	3	[4]
				3	4	[5]
Total derivatives not designated as hedging instruments	414	472		1,615	1,837	
Total derivatives	$419	$475		$1,627	$1,859	

Location on the 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 $74 million and $132 million as of December 31, 2015 and 2014, 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 $71 million and $61 million as of December 31, 2015 and 2014, 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. Net exposure to the counterparty is calculated as the estimated fair value of all derivative positions with the counterparty, net of income or expense accruals and cash collateral paid or received. If the net exposure to the counterparty is positive, the amount is reflected in other investments, whereas, if the net exposure to the counterparty is negative, the estimated fair value is included in other liabilities.

As of December 31, 2015 and 2014, the Company had also accepted collateral, consisting of various securities, with an estimated fair value of $45 million and $24 million, respectively, which are held in separate custodial accounts and are not recorded in the consolidated statements of financial condition. The Company is permitted by contract to sell or repledge this collateral and as of December 31, 2015 and 2014, none of the collateral had been sold or repledged. As of December 31, 2015 and 2014, the Company provided collateral in the form of various securities with an estimated fair value of $5 million, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

OFFSETTING ASSETS AND LIABILITIES

The following table reconciles the net amount of derivative assets and liabilities reported in the consolidated statements of financial condition (excluding embedded derivatives) subject to master netting arrangements after the offsetting of collateral. Gross amounts include income or expense accruals. Gross amounts offset include cash collateral received or pledged limited to the gross estimated fair value of recognized derivative assets or liabilities, net of accruals. Excess cash collateral received or pledged is not included in the tables due to the foregoing limitation. Gross amounts not offset include asset collateral received or pledged limited to the gross estimated fair value of recognized derivative assets and liabilities.

	Gross Amounts of Recognized Assets/Liabilities [1]	Gross Amounts Offset [2]	Net Amounts	Gross Amounts Not Offset - Asset Collateral	Net Amounts
			(In Millions)		
December 31, 2015:					
Derivative assets	$191	($125)	$66	($45)	$21
Derivative liabilities	107	(67)	40		40
December 31, 2014:					
Derivative assets	$233	($191)	$42	($23)	$19
Derivative liabilities	202	(89)	113		113

(1) As of December 31, 2015 and 2014, derivative assets include expense accruals of $22 million and $38 million, respectively, and derivative liabilities include expense accruals of $66 million and $12 million, respectively.
(2) As of December 31, 2015 and 2014, the Company received excess cash collateral of $1 million and $4 million, respectively, and provided excess cash collateral of $1 million and zero, respectively, which are not included in the table.

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to over the counter (OTC) derivatives, which are bilateral contracts between two counterparties. The Company manages credit risk by dealing with creditworthy counterparties, establishing risk control limits, executing legally enforceable master netting agreements, and obtaining collateral where appropriate. In addition, the Company evaluates the financial stability of each counterparty before entering into each agreement and throughout the period that the financial instrument is owned.

The Company’s exchange-traded futures are transacted through regulated exchanges and variation margin is settled on a daily basis. Therefore, the Company has little exposure to credit-related losses in the event of nonperformance by counterparties. In addition, the Company is required to pledge initial margin for all futures contracts. The amount of required margin is determined by the exchange on which it is traded. The Company currently pledges cash and securities to satisfy this collateral requirement.

For OTC derivative transactions, the Company enters into legally enforceable master netting agreements which provide for the netting of payments and receipts with a single counterparty. The net position with each counterparty is calculated as the aggregate estimated fair value of all derivative instruments with each counterparty, net of income or expense accruals and collateral paid or received. These master netting agreements may also include collateral arrangements with derivative counterparties, which may require both the pledge and acceptance of collateral when the net estimated fair value of the underlying derivatives reaches a pre-determined threshold.

The Company’s credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of accrued income or expenses and collateral received, if any. The Company’s credit exposure for OTC derivatives as of December 31, 2015 was $20 million. The maximum exposure to any single counterparty was $6 million at December 31, 2015. All of the Company's credit exposure from derivative contracts is with investment grade counterparties.

The Company's collateral arrangements for its OTC derivatives include credit-contingent provisions that provide for a reduction of collateral thresholds in the event of downgrades in the financial strength ratings, assigned by certain independent rating agencies, of the Company and/or the counterparty. If either the Company's or the counterparty's financial strength ratings were to fall below a specific investment grade credit rating, the other party 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 OTC derivative instruments with credit risk related contingent features that were in a liability position on December 31, 2015, was $31 million for which the Company has posted collateral of $14 million. If certain of the Company's financial strength ratings were to fall one notch as of December 31, 2015, the Company would have been required to post an additional $7 million of collateral to its counterparties.

The OTC master agreements 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 if one of the rating agencies were to cease 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 December 31, 2015, the Company's financial strength ratings were above the specified level.

9. POLICYHOLDER LIABILITIES

POLICYHOLDER ACCOUNT BALANCES

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

	December 31,	
	2015	2014
	(In Millions)	
UL	$25,812	$24,642
Annuity and deposit liabilities	14,894	13,310
Funding agreements	295	714
Life indexed account embedded derivatives	191	278
Fixed indexed annuity embedded derivatives	167	110
GICs		115
Total	$41,359	$39,169

FUTURE POLICY BENEFITS

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

	December 31,	
	2015	2014
	(In Millions)	
Annuity reserves	$7,620	$7,725
Policy benefits payable	2,773	2,206
Variable annuity GLB embedded derivatives	1,200	1,274
URR	1,138	818
Life insurance	970	833
Closed Block liabilities	268	266
Other	119	78
Total	$14,088	$13,200

10. SEPARATE ACCOUNTS AND GUARANTEED BENEFIT FEATURES

The Company issues variable annuity contracts through separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). These contracts also include various types of GMDB and GLB features. For a discussion of certain GLBs accounted for as embedded derivatives, see Note 8.

The GMDBs provide a specified minimum return upon death. Many of these death benefits are spousal, whereby a death benefit will be paid upon death of the first spouse. The survivor has the option to terminate the contract or continue it and have the death benefit paid into the contract and a second death benefit paid upon the survivor's death. The GMDB features include those where the Company contractually guarantees to the contract holder either (a) return of no less than total deposits made to the contract less any partial withdrawals (return of net deposits), (b) the highest contract value on any contract anniversary date through age 80 minus any payments or partial withdrawals following the contract anniversary (anniversary contract value), or (c) the highest of contract value on certain specified dates or total deposits made to the contract less any partial withdrawals plus a minimum return (minimum return).

The guaranteed minimum income benefit (GMIB) is a GLB that provides the contract holder with a guaranteed annuitization value after 10 years. Annuitization value is generally based on deposits adjusted for withdrawals plus a minimum return. In general, the GMIB requires contract holders to invest in an approved asset allocation strategy.

The Company offers variable and fixed annuity contracts with guaranteed minimum withdrawal benefits for life (GMWBL) features. The GMWBL is a GLB that provides, subject to certain restrictions, a percentage of a contract holder's guaranteed payment base will be available for withdrawal for life starting at age 59.5, regardless of market performance. The rider terminates upon death of the contract holder or their spouse if a spousal form of the rider is purchased.

Information in the event of death on the various GMDB features outstanding was as follows (the Company's variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive):

	December 31,	
	2015	2014
	($ In Millions)	
Return of net deposits		
Separate account value	$49,682	$53,187
Net amount at risk [(1)]	1,083	581
Average attained age of contract holders	66 years	65 years
Anniversary contract value		
Separate account value	$13,835	$15,206
Net amount at risk [(1)]	930	536
Average attained age of contract holders	67 years	66 years
Minimum return		
Separate account value	$884	$995
Net amount at risk [(1)]	449	406
Average attained age of contract holders	71 years	70 years

[(1)] Represents the amount of death benefit in excess of the current contract holder account balance as of December 31.

Information regarding GMIB and GMWBL features outstanding is as follows:

	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	GMIB		GMWBL	
	($ In Millions)		*($ In Millions)*	
Separate account value	$1,755	$2,027	$5,422	$5,220
Net amount at risk [(1)]	265	183	431	119
Average attained age of contract holders	62 years	61 years	66 years	65 years

(1) GMIB net amount at risk represents the amount of estimated annuitization benefits in excess of the current contract holder account balance at December 31. GMWBL net amount at risk represents the protected balance, as defined, in excess of account value at December 31.

The determination of GMDB, GMIB and GMWBL liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The following table summarizes the GMDB, GMIB and GMWBL liabilities, which are recorded in future policy benefits, and changes in these liabilities, which are reflected in policy benefits paid or provided:

	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	GMDB		GMIB		GMWBL	
	(In Millions)		*(In Millions)*		*(In Millions)*	
Balance, beginning of year	$5		$25	$18	$21	$11
Changes in reserves	15	$15	18	10	32	10
Benefits paid	(11)	(10)	(3)	(3)		
Balance, end of year	$9	$5	$40	$25	$53	$21

Variable annuity contracts with guarantees were invested in separate account investment options as follows:

	December 31, 2015	December 31, 2014
	(In Millions)	
Asset type		
Equity	$30,300	$32,496
Bonds	15,666	17,143
Money market	319	259
Other	3,619	3,495
Total separate account value	$49,904	$53,393

In addition, the Company issues certain life insurance contracts whereby the Company contractually guarantees to the contract holder a death benefit even when there is insufficient value to cover monthly mortality and expense charges, whereas otherwise the contract would typically lapse.

FDNLGR liabilities are determined by estimating the expected value of FDNLGR costs incurred when the policyholder account balance is projected to be zero and recognizing those costs over the accumulation period based on total expected assessments. The assumptions used in estimating the FDNLGR liability are consistent with those used for amortizing DAC. The FDNLGR costs used in calculating the FDNLGR liability are based on the average FDNLGR costs incurred over a range of scenarios.

The following table summarizes the FDNLGR liability, which are recorded in future policy benefits, and changes in these liabilities, which are reflected in policy benefits paid or provided:

	Direct	Ceded	Net
		(In Millions)	
Balance, January 1, 2013	$279	$105	$174
Incurred guaranteed benefits	40	(5)	45
Paid guaranteed benefits	(7)		(7)
Balance, December 31, 2013	312	100	212
Incurred guaranteed benefits	111	26	85
Paid guaranteed benefits	(7)		(7)
Balance, December 31, 2014	416	126	290
Incurred guaranteed benefits	142	29	113
Paid guaranteed benefits	(1)		(1)
Balance, December 31, 2015	$557	$155	$402

Information regarding life insurance contracts included in the FDNLGR liability is as follows:

	December 31,	
	2015	2014
	($ In Millions)	
Net amount at risk [1]	$16,905	$17,230
Average attained age of policyholders	59 years	58 years

[1] Represents the amount of death benefit in excess of the current policyholder account balance as of December 31.

11. DEBT

Debt consists of the following:

	December 31, 2015	December 31, 2014
	(In Millions)	
Short-term debt:		
Credit facility recourse only to ACG	$485	$266
Other VIE debt (Note 4)	10	2
Total short-term debt	$495	$268
Long-term debt:		
Surplus notes	$1,771	$1,771
Fair value hedge adjustments - terminated interest rate swap agreements	271	277
Note payable to Pacific LifeCorp	15	
Non-recourse long-term debt:		
Debt recourse only to ACG	5,021	4,525
ACG non-recourse debt		307
Other non-recourse debt	214	106
ACG VIE debt (Note 4)	282	401
CMBS VIE debt (Note 4)	1,521	676
Total long-term debt	$9,095	$8,063

SHORT-TERM DEBT

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of December 31, 2015 and 2014. In addition, Pacific Life has a bank revolving credit facility of $400 million maturing in October 2019 that will serve as a back-up line of credit to the commercial paper program. Interest is at variable rates. This facility had no debt outstanding as of December 31, 2015 and 2014. As of and during the year ended December 31, 2015, Pacific Life was in compliance with the debt covenants related to these facilities.

The Company 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 reverse repurchase lines of credit as of December 31, 2015 and 2014.

Pacific Life is a member of the Federal Home Loan Bank (FHLB) of Topeka. Pacific Life is eligible to receive advances from the FHLB of Topeka based on a percentage of Pacific Life's statutory general account assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of Topeka requirements, debt covenant restrictions and insurance law and regulations. The Company had estimated available eligible collateral of $1.8 billion as of December 31, 2015. Interest is at variable or fixed rates. The Company had no debt outstanding with the FHLB of Topeka as of December 31, 2015 and 2014.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to receive advances from the FHLB of San Francisco based on a percentage of PL&A's net admitted assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of San Francisco requirements and insurance law and regulations. PL&A had estimated available eligible collateral of $46 million as of December 31, 2015. Interest is at variable or fixed rates. PL&A had no debt outstanding with the FHLB of San Francisco as of December 31, 2015 and 2014.

ACG has revolving credit agreements with banks for a $1,165 million borrowing capacity. Interest on these loans is at variable rates, payable monthly and ranged from 1.9% to 2.1% as of December 31, 2015 and was 1.9% as of December 31, 2014. The facilities expire at various dates ranging from 2017 to 2019. There was $485 million and $266 million outstanding in connection with these revolving credit agreements as of December 31, 2015 and 2014, respectively. These credit agreements are recourse only to ACG.

During 2015, ACG entered into a loan facility with several Japanese banks that is denominated in Japanese yen with a U.S. dollar equivalent of approximately $192 million as of December 31, 2015. Interest is at variable rates. ACG has not drawn on the loan facility as of December 31, 2015. This loan facility is recourse only to ACG.

LONG-TERM DEBT

Pacific Life has $677 million of surplus notes outstanding as of December 31, 2015 and 2014, 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 these surplus notes at its option, subject to the approval of the NE DOI for such optional redemption. The surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on these surplus notes can be made only with the prior approval of the NE DOI. On January 22, 2013, Pacific Life, with the approval of the NE DOI, exercised its early settlement right and repurchased and retired $323 million of the originally issued $1 billion of 9.25% surplus notes. The partial retirement of these surplus notes was accounted for as an extinguishment of debt and the related amortization of fair value hedge adjustments (see below) of $112 million and the premium paid of $155 million were recognized in interest expense during the year ended December 31, 2013. During 2011, Pacific Life terminated interest rate swaps converting these surplus notes to variable rate notes and fair value hedge adjustments of $364 million were recorded as of the termination date and are being amortized as a reduction to interest expense over the remaining life of the surplus notes using the effective interest method. The resulting effective interest rate of these surplus notes is 6.4%. Total unamortized fair value hedge adjustments were $231 million and $234 million as of December 31, 2015 and 2014, respectively.

Pacific Life has $150 million of surplus notes outstanding as of December 31, 2015 and 2014, at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. These surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on these surplus notes can be made only with the prior approval of the NE DOI. During 2011, Pacific Life terminated interest rate swaps converting the 7.9% surplus notes to variable rate notes and fair value hedge adjustments of $56 million as of the termination date were recorded and are being amortized as a reduction to interest expense over the remaining life of the surplus notes using the effective interest method. The resulting effective interest rate of these surplus notes is 4.0%. Total unamortized fair value hedge adjustments were $40 million and $43 million as of December 31, 2015 and 2014, respectively.

The NE DOI 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 NE DOI. The internal surplus note matures on February 5, 2020. The carrying amount outstanding as of December 31, 2015 and 2014 was $450 million.

The NE DOI approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $500 million with net cash proceeds of $494 million. The original issue discount of $6 million is being amortized over the life of this surplus note. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on January 25 and July 25 at a fixed annual rate of 5.125%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on January 25, 2043. The carrying amount outstanding as of December 31, 2015 and 2014 was $494 million.

In November 2015, Pacific Life Reinsurance Company II Limited (PLRC), an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific Life, entered into a promissory note with Pacific LifeCorp to borrow up to $50 million. As of December 31, 2015, $15 million was outstanding on the note with an interest rate of 3.8% and matures on December 31, 2017.

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 3.9% as of December 31, 2015 and 0.5% to 4.1% as of December 31, 2014. As of December 31, 2015, $1,342 million was outstanding on these loans with maturities ranging from 2016 to 2024. As of December 31, 2014, $1,512 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various senior unsecured notes and loans with third-parties. Interest on these notes and loans is payable quarterly or semi-annually and ranged from 1.2% to 7.2% as of December 31, 2015 and 2014. As of December 31, 2015, $3,679 million was outstanding on these notes and loans with maturities ranging from 2016 to 2025. As of December 31, 2014, $3,013 million was outstanding on these notes and loans. These notes and loans are recourse only to ACG.

ACG had a secured facility to finance aircraft. Interest on this facility accrued at variable rates, was payable monthly and was 3.6% as of December 31, 2014. As of December 31, 2014, $307 million was outstanding on this facility. This debt was paid off in December 2015 (Note 7). This facility was non-recourse to the Company.

Certain subsidiaries of Pacific Asset Holding LLC, a wholly owned subsidiary of Pacific Life, enter 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 were 3.6% as of December 31, 2015 and ranged from 3.6% to 5.4% as of December 31, 2014. The variable rates ranged from 1.7% to 2.6% as of December 31, 2015 and were 2.4% as of December 31, 2014. As of December 31, 2015, there was $161 million outstanding on these loans with maturities ranging from 2016 to 2019. As of December 31, 2014, there was $106 million outstanding on these loans. All of these loans are secured by real estate properties and are non-recourse to the Company.

As of December 31, 2015, the Company has a secured borrowing of $53 million due to an unrelated third-party. Payments of principal and interest are due monthly with an effective rate of 4.7% that matures on September 1, 2026. The lender's collateral for the amount borrowed is a participation interest in two of the Company's commercial mortgage loans that are secured by real estate property and is non-recourse to the Company.

As of December 31, 2015, the Company was in compliance with all its debt covenants.

The following summarizes aggregate scheduled principal payments during the next five years and thereafter:

			Non-recourse Debt		
	Surplus Notes	Notes Payable to Pacific LifeCorp	Debt Recourse Only to ACG	Other Non-recourse Debt	Total
Years Ending December 31:			*(In Millions)*		
2016			$787	$25	$812
2017		$15	342	47	404
2018			1,374	56	1,430
2019			170	36	206
2020	$450		959	50	1,459
Thereafter	1,321		1,389		2,710
Total	$1,771	$15	$5,021	$214	$7,021

The table above excludes VIE debt and fair value hedge adjustments.

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 determination of estimated fair value requires the use of observable market data when available. 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 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 in inactive markets; and model-derived valuations for which all significant inputs are observable market data.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are not market observable.

The following tables present, by estimated fair value hierarchy level, the Company's financial assets and liabilities that are carried at estimated fair value as of December 31, 2015 and 2014.

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments (1)	Total
			(In Millions)			
December 31, 2015:						
Assets:						
U.S. Government		$57				$57
Obligations of states and political subdivisions		909	$29			938
Foreign governments		584	8			592
Corporate securities		31,046	1,620			32,666
RMBS		2,405	151			2,556
CMBS		759	54			813
Collateralized debt obligations			65			65
Other asset-backed securities		719	319			1,038
Total fixed maturity securities	-	36,479	2,246	-	-	38,725
Perpetual preferred securities		86				86
Other equity securities	$2					2
Total equity securities	2	86	-	-	-	88
FVO securities		536				536
Other investments:						
Trading securities	4	205				209
Other investments (2)	3	147	5			155
Other investments measured at NAV (3)						74
Total other investments carried at fair value	7	352	5	-	-	438
Derivatives:						
Foreign currency and interest rate swaps		129		$129	($27)	102
Equity derivatives			100	100	(28)	72
Embedded derivatives			190	190		190
Total derivatives	-	129	290	419	(55)	364
Separate account assets:						
Separate account assets	56,632	114				56,746
Separate account assets measured at NAV (3)						228
Total separate account assets carried at fair value (4)	56,632	114	-	-	-	56,974
Total	$56,641	$37,696	$2,541	$419	($55)	$97,125
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$49		$49	($27)	$22
Equity derivatives			$9	9	(28)	(19)
Embedded derivatives			1,569	1,569		1,569
Total	-	$49	$1,578	$1,627	($55)	$1,572

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
December 31, 2014:						
Assets:						
U.S. Government		$56				$56
Obligations of states and political subdivisions		988	$29			1,017
Foreign governments		603	56			659
Corporate securities		27,903	1,816			29,719
RMBS		2,690	14			2,704
CMBS		653	4			657
Collateralized debt obligations			70			70
Other asset-backed securities		492	288			780
Total fixed maturity securities	-	33,385	2,277	-	-	35,662
Perpetual preferred securities		125				125
Other equity securities	$2		4			6
Total equity securities	2	125	4	-	-	131
FVO securities		563				563
Other investments:						
Trading securities	74	145	5			224
Other investments [2]	2	126	5			133
Other investments measured at NAV [3]						57
Total other investments carried at fair value	76	271	10	-	-	414
Derivatives:						
Foreign currency and interest rate swaps		71		$71	($55)	16
Equity derivatives			200	200	(59)	141
Embedded derivatives			204	204		204
Total derivatives	-	71	404	475	(114)	361
Separate account assets:						
Separate account assets	60,254	112	5			60,371
Separate account assets measured at NAV [3]						203
Total separate account assets carried at fair value [4]	60,254	112	5	-	-	60,574
Total	$60,332	$34,527	$2,700	$475	($114)	$97,705
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$178		$178	($55)	$123
Equity derivatives			$12	12	(59)	(47)
Embedded derivatives			1,669	1,669		1,669
Total	-	$178	$1,681	$1,859	($114)	$1,745

[1] Netting adjustments represent the impact of offsetting asset and liability positions on the consolidated statements of financial condition held with the same counterparty as permitted by guidance for offsetting in the Codification's Derivatives and Hedging Topic.
[2] Excludes investments accounted for under the equity and cost methods of accounting.
[3] In accordance with the Codification's Fair Value Measurement Topic 820-10, certain investments that do not have a readily determinable fair value are measured using the NAV per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial condition.
[4] Separate account assets are measured at estimated fair value. Investment performance related to separate account assets is offset by corresponding amounts credited to contract holders whose liability is reflected in the separate account liabilities. Separate account liabilities are measured to equal the 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. Excluded are the separate account assets measured at NAV discussed below.

As a practical expedient to value certain investments that do not have a readily determinable fair value, the Company uses the NAV to determine the fair value. The following table lists information regarding these investments as of December 31, 2015.

Asset Class	Estimated Fair Value	Redemption Frequency	Initial Lock-Up	Redemption Notice Period	Outstanding Commitment
		($ In Millions)			
Hedge funds	$51	Monthly - 19% Quarterly - 66% Semi-Annually - 4% Annually - 11%	None to 1 year	30 – 92 days	
Private equity funds	23	None	N/A	N/A	$54
Separate account hedge funds	228	Monthly - 31% Quarterly - 50% Annually - 19%	None to 7 years	5 – 125 days	
Total assets measured at NAV	$302				$54

ESTIMATED FAIR VALUE MEASUREMENT

The Codification's Fair Value Measurements and Disclosures Topic defines estimated fair value as the price that would be received to sell the asset or paid to transfer the liability at the measurement date. This "exit price" notion is a market-based measurement that requires a focus on the value that market participants would assign for an asset or liability.

The following section describes the valuation methodologies used by the Company to measure various types of financial instruments at estimated fair value and the controls that surround the valuation process. The Company reviews its valuation methodologies and controls on an ongoing basis and assesses whether these methodologies are appropriate based on the current economic environment.

FIXED MATURITY, EQUITY, FVO AND TRADING SECURITIES

The estimated fair values of fixed maturity securities available for sale, equity securities available for sale, FVO and trading securities are determined by management after considering external pricing sources and internal valuation techniques. For securities with sufficient trading volume, prices are obtained from third-party pricing services. For securities that are traded infrequently, estimated fair values are determined after evaluating prices obtained from third-party pricing services and independent brokers or are valued internally using various valuation techniques.

The Company's management analyzes and evaluates prices received from independent third parties and determines whether they are reasonable estimates of fair value. Management's analysis may include, but is not limited to, review of third-party pricing methodologies and inputs, analysis of recent trades, comparison to prices received from other third parties, and development of internal models utilizing observable market data of comparable securities. The Company assesses the reasonableness of valuations received from independent brokers by considering current market dynamics and current pricing for similar securities.

For prices received from independent pricing services, the Company applies a formal process to challenge any prices received that are not considered representative of estimated fair value. If prices received from independent pricing services are not considered reflective of market activity or representative of estimated fair value, independent non-binding broker quotations are obtained, or an internally-developed valuation is prepared. Upon evaluation, the Company determines which source represents the best estimate of fair value. Overrides of third-party prices to internally-developed valuations of estimated fair value did not produce material differences in the estimated fair values for the majority of the portfolio. In the absence of such market observable activity, management's best estimate is used.

Internal valuation techniques include matrix model pricing and internally-developed models, which incorporate observable market data, where available. Securities priced by the matrix model are primarily comprised of private placement securities. Matrix model pricing measures estimated fair value using cash flows, which are discounted using observable market yield curves provided by a major independent data service. The matrix model determines the discount yield based upon significant factors that include the security's weighted average life, rating and sector.

Where matrix model pricing is not used, estimated fair values are determined by other internally-derived valuation tools which use market-observable data if available. Generally, this includes using an actively-traded comparable security as a benchmark for pricing. These internal valuation methods primarily represent discounted cash flow models that incorporate significant assumptive inputs such as spreads, discount rates, default rates, severity, and prepayment speeds. These inputs are analyzed by the Company's portfolio managers and analysts, investment accountants and risk managers. Internally-developed estimates may also use unobservable data, which reflect the Company's own assumptions about the inputs market participants would use.

Most securities priced by a major independent third-party pricing service and private placement securities that use the matrix model have been classified as Level 2, as management has verified that the significant inputs used in determining their estimated fair values are market observable and appropriate. Externally priced securities for which estimated fair value measurement inputs are not sufficiently transparent, such as securities valued based on independent broker quotations, have been classified as Level 3. Internally valued securities, including adjusted prices received from independent third parties, where significant management assumptions have been utilized in determining estimated fair value, have been classified as Level 3. Securities categorized as Level 1 consist primarily of investments in mutual funds.

The Company applies controls over the valuation process. Prices are reviewed and approved by the Company's credit analysts that have industry expertise and considerable knowledge of the issuers. Management performs validation checks to determine the completeness and reasonableness of the pricing information, which include, but are not limited to, changes from identified pricing sources, significant or unusual price fluctuations above predetermined tolerance levels from the prior period, and back-testing of estimated fair values against prices of actual trades. A group comprised of the Company's investment accountants, portfolio managers and analysts and risk managers meet to discuss any unusual items above the tolerance levels that may have been identified in the pricing review process. These unusual items are investigated, further analysis is performed and resolutions are appropriately documented.

OTHER INVESTMENTS

Other investments include non-marketable equity securities that do not have readily determinable estimated fair value. Certain significant inputs used in determining the estimated fair value of these equities are based on management assumptions or contractual terms with another party that cannot be readily observable in the market. These non-marketable equity securities are classified as Level 3 assets. Also included in other investments are the securities of the 40 Act Funds, which are valued using the same methodology as described above for fixed maturity, equity, FVO and trading securities.

DERIVATIVE INSTRUMENTS

Derivative instruments are reported at estimated fair value using pricing valuation models, which utilize market data inputs or independent broker quotations or exchange prices for exchange-traded futures. The Company calculates the estimated fair value of derivatives using market standard valuation methodologies for foreign currency and interest rate swaps and equity options. Internal models are used to value the equity total return swaps. The derivatives are valued using mid-market inputs that are predominantly observable in the market. Inputs include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest volatility, equity volatility and equity index levels. On a monthly basis, the Company performs an analysis of derivative valuations, which includes both quantitative and qualitative analyses. Examples of procedures performed include, but are not limited to, review of pricing statistics and trends, analysis of the impacts of changes in the market environment, and review of changes in the market value for each derivative by both risk managers and investment accountants. Internally calculated estimated fair values are reviewed and compared to external broker fair values for reasonableness.

Excluding embedded derivatives, as of December 31, 2015, all of the OTC derivatives based upon notional values were priced by valuation models. A credit valuation analysis was performed for all derivative positions to measure the risk that the counterparties to the transaction will be unable to perform under the contractual terms (nonperformance risk) and was determined to be immaterial as of December 31, 2015.

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

Derivative instruments classified as Level 3 include complex derivatives, such as equity options and total return swaps. Also classified in Level 3 are embedded derivatives in certain insurance and reinsurance contracts. These derivatives are valued using pricing models, which utilize both observable and unobservable inputs, primarily interest rate volatility, equity volatility, equity index levels, nonperformance risk, and, to a lesser extent, market fees and broker quotations. A derivative instrument containing Level 2 inputs will be classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.

VARIABLE ANNUITY GLB EMBEDDED DERIVATIVES

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

Estimated fair value is calculated as an aggregation of estimated fair value and additional risk margins including behavior risk margin, mortality risk margin and credit standing adjustment. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants. Each of the components described below are unobservable in the market place and requires subjectivity by the Company in determining their value.

- <u>Behavior risk margin</u>: This component adds a margin that market participants would require for the risk that the Company's assumptions about policyholder behavior used in the estimated fair value model could differ from actual experience. This component includes assumptions about withdrawal utilization and lapse rates.

- <u>Mortality risk margin</u>: This component adds a margin in mortality assumptions, both for decrements for policyholders with GLBs, and for expected payout lifetimes in guaranteed minimum withdrawal benefits.

- <u>Credit standing adjustment</u>: This component makes an adjustment that market participants would make to reflect the chance that GLB obligations or the GLB reinsurance recoverables will not be fulfilled (nonperformance risk).

SEPARATE ACCOUNT ASSETS

Separate account assets are reported at estimated fair value as a summarized total on the consolidated statements of financial condition. The estimated fair value of separate account assets is based on the estimated fair value of the underlying assets. Separate account assets are primarily invested in mutual funds, but also have investments in fixed maturity securities and hedge funds.

Level 1 assets include mutual funds that are valued based on reported net asset values provided by fund managers daily and can be redeemed without restriction. Management performs validation checks to determine the reasonableness of the pricing information, which include, but are not limited to, price fluctuations above predetermined thresholds from the prior day and validation against similar funds or indices. Variances are investigated, further analysis is performed and resolutions are appropriately documented.

Level 2 and 3 assets include fixed maturity securities. The pricing methodology and valuation controls are the same as those previously described in fixed maturity securities available for sale.

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, 2015	Total Gains or Losses Included in Earnings	Total Gains or Losses Included in OCI	Transfers In to Level 3 [1]	Transfers Out of Level 3 [1]	Purchases	Sales	Settlements	December 31, 2015
					(In Millions)				
Obligations of states and political subdivisions	$29								$29
Foreign governments	56		($2)		($44)			($2)	8
Corporate securities	1,816	$14	(109)	$163	(292)	$252	($3)	(221)	1,620
RMBS	14		(2)		(106)	265		(20)	151
CMBS	4					51		(1)	54
Collateralized debt obligations	70	1	(6)						65
Other asset-backed securities	288		(4)	6	(65)	135		(41)	319
Total fixed maturity securities	2,277	15	(123)	169	(507)	703	(3)	(285)	2,246
Other equity securities	4	5	(4)				(5)		-
Total equity securities	4	5	(4)	-	-	-	(5)	-	-
Trading securities	5				(6)	8	(6)	(1)	-
Other investments	5								5
Derivatives, net: [2]									
Equity derivatives	188	60						(157)	91
Embedded derivatives	(1,465)	106				(207)		187	(1,379)
Total derivatives	(1,277)	166	-	-	-	(207)	-	30	(1,288)
Separate account assets [3]	5				(6)	2	(1)		-
Total	$1,019	$186	($127)	$169	($519)	$506	($15)	($256)	$963

	January 1, 2014	Total Gains or Losses Included in Earnings	Total Gains or Losses Included in OCI	Transfers In to Level 3 [1]	Transfers Out of Level 3 [1]	Purchases	Sales	Settlements	December 31, 2014
					(In Millions)				
Obligations of states and political subdivisions	$47		$4		($21)			($1)	$29
Foreign governments	77		4	$1	(37)	$15		(4)	56
Corporate securities	1,649	$31	46	241	(288)	362	($61)	(164)	1,816
RMBS	93	(1)	4	15	(65)	19	(46)	(5)	14
CMBS	10				(5)			(1)	4
Collateralized debt obligations	83	4						(17)	70
Other asset-backed securities	314	3	5	3	(48)	101		(90)	288
Total fixed maturity securities	2,273	37	63	260	(464)	497	(107)	(282)	2,277
Other equity securities	5		(1)						4
Total equity securities	5	-	(1)	-	-	-	-	-	4
Trading securities	3			2	(5)	23	(18)		5
Other investments	12					1		(8)	5
Derivatives, net: [2]									
Equity derivatives	11	209						(32)	188
Embedded derivatives	(647)	(872)				(130)		184	(1,465)
Total derivatives	(636)	(663)	-	-	-	(130)	-	152	(1,277)
Separate account assets [3]	5			1			(1)		5
Total	$1,662	($626)	$62	$263	($469)	$391	($126)	($138)	$1,019

(1) Transfers in and/or out are recognized at the end of each quarter.

(2) Excludes derivative net settlements of ($140) million and ($214) million in 2015 and 2014, respectively, that are recorded in net realized investment gain (loss). Excludes synthetic GIC policy fees of $44 million in 2015 and 2014 that are recorded in net realized investment gain (loss). Excludes embedded derivative policy fees of $209 million and $199 million in 2015 and 2014, respectively, that are recorded in net realized investment gain (loss).

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

During the years ended December 31, 2015 and 2014, transfers into Level 3 were primarily attributable to the decreased availability and use of market observable inputs to estimate fair value. The transfers out of Level 3 were generally due to the use of market observable inputs in valuation methodologies, including the utilization of pricing service information. During the years ended December 31, 2015 and 2014, the Company did not have any significant transfers between Levels 1 and 2.

Amounts included in earnings of Level 3 financial assets and liabilities are as follows:

Year Ended December 31, 2015:	Net Investment Income	Net Realized Investment Gain (Loss)	OTTI	Total
		(In Millions)		
Corporate securities	$20	$5	($11)	$14
Collateralized debt obligations	1			1
Total fixed maturity securities	21	5	(11)	15
Other equity securities		5		5
Total equity securities	-	5	-	5
Equity derivatives		60		60
Embedded derivatives		106		106
Total derivatives	-	166	-	166
Total	$21	$176	($11)	$186

Year Ended December 31, 2014:	Net Investment Income	Net Realized Investment Gain (Loss)	OTTI	Total
		(In Millions)		
Corporate securities	$24	$9	($2)	$31
RMBS		(1)		(1)
Collateralized debt obligations	4			4
Other asset-backed securities	3			3
Total fixed maturity securities	31	8	(2)	37
Equity derivatives		209		209
Embedded derivatives		(872)		(872)
Total derivatives	-	(663)	-	(663)
Total	$31	($655)	($2)	($626)

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

	Years Ended December 31, 2015	2014
	(In Millions)	
Derivatives, net: [1]		
Equity derivatives	$37	$154
Embedded derivatives	103	(830)
Total derivatives	$140	($676)

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

The following table presents certain quantitative information of significant unobservable inputs used in the fair value measurement for Level 3 assets and liabilities as of December 31, 2015 (*$ In Millions*).

	Estimated Fair Value Asset (Liability)	Predominant Valuation Method	Significant Unobservable Inputs	Range (Weighted Average)
Obligations of states and political subdivisions	$29	Discounted cash flow	Spread [1]	290-294 (293)
Foreign governments	8	Discounted cash flow	Spread [1]	122
Corporate securities	1,620	Discounted cash flow	Spread [1]	64-6410 (454)
		Collateral value [3]	Collateral value	45-123 (89)
		Market pricing	Quoted prices [2]	22-116 (99)
RMBS	151	Market pricing	Quoted prices [2]	100-101 (100)
CMBS	54	Discounted cash flow	Spread [1]	151-537 (297)
			Prepayment rate	0%
			Default rate	0%
			Severity	0%
Collateralized debt obligations	65	Market pricing	Quoted prices [2]	72-88 (84)
Other asset-backed securities	319	Discounted cash flow	Spread [1]	67-471 (148)
		Market pricing	Quoted prices [2]	74-121 (100)
		Cap at call price	Call price	100
Other investments	5	Redemption value [4]	Redemption value	100
Equity derivatives	91	Option pricing model	Equity volatility	13% - 47% (17%)
Embedded derivatives [5]	(1,379)	Option pricing techniques	Equity volatility	12% - 47%
			Mortality:	
			Ages 0-40	0.01% - 0.18%
			Ages 41-60	0.06% - 0.55%
			Ages 61-120	0.39% - 100%
			Mortality improvement	0% - 1.50%
			Withdrawal utilization	0% - 80%
			Lapse rates	0% - 100%
			Credit standing adjustment	0.55% - 1.94%
Total	$963			

[1] Range and weighted average are presented in basis points over the benchmark interest rate curve and include adjustments attributable to illiquidity premiums, expected duration, structure and credit quality.

[2] Independent third-party quotations were used in the determination of estimated fair value.

[3] Valuation based on the Company's share of estimated fair values of the underlying assets held in the trusts.

[4] Represents FHLB common stock that is valued at the contractual amount that will be received upon redemption.

[5] This liability consists of embedded derivatives from variable annuity GLBs, fixed indexed annuity products and life indexed account insurance products. Since the valuation methodology for the embedded derivatives uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is more representative of the unobservable input used in the valuation.

NONRECURRING FAIR VALUE MEASUREMENTS

Certain assets are measured at estimated fair value on a nonrecurring basis and are not included in the tables presented above. The amounts below relate to certain assets measured at estimated fair value during the year.

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Carrying Value Prior to Measurement	Estimated Fair Value After Measurement	Impairment	Carrying Value Prior to Measurement	Estimated Fair Value After Measurement	Impairment
			(In Millions)			
Mortgage loans	$36	$24	($12)	$62	$44	($18)
Other investments	19	15	(4)	10	9	(1)
Aircraft	191	152	(39)	203	166	(37)

MORTGAGE LOANS

The estimated fair value after measurement was based on the valuation of the underlying real estate collateral net of estimated costs to sell. These loans were classified as Level 3 assets. The impairment loss is gross of ceded reinsurance of $1 million and $4 million for the years ended December 31, 2015 and 2014, respectively.

OTHER INVESTMENTS

The estimated fair value after measurement for real estate investments is determined using a combination of the present value of the expected future cash flows and comparable sales. The estimated fair value after measurement for investments in limited partnerships is based on the equity provided by the underlying investment managers. The investments are classified as Level 3 assets.

AIRCRAFT

The estimated fair value after measurement is based on the present value of the future cash flows, which can include contractual lease payments, projected future lease payments, estimated residual value and estimated sales price. Projected future lease payments are based upon current contracted lease rates for similar aircraft and industry trends. These assets are classified as Level 3.

The Company did not have any other nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of December 31, 2015 and 2014. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

The carrying amount and estimated fair value of the Company's financial instruments that are not carried at fair value under the Codification's Financial Instruments Topic are as follows:

	December 31, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Millions)			
Assets:				
Mortgage loans	$11,092	$11,623	$9,327	$10,031
Policy loans	7,331	7,331	7,234	7,234
Other investments	209	251	199	238
Cash and cash equivalents	1,845	1,845	3,220	3,220
Restricted cash	265	265	266	266
Liabilities:				
Funding agreements and GICs	295	290	829	881
Annuity and deposit liabilities	14,894	14,894	13,310	13,310
Short-term debt	495	495	268	268
Long-term debt	9,095	9,519	8,063	8,643

The following methods and assumptions were used to estimate the fair value of these financial instruments as of December 31, 2015 and 2014:

MORTGAGE LOANS

The estimated fair value of the mortgage loan portfolio is determined by discounting the estimated future cash flows, using current rates that are applicable to similar credit quality, property type and average maturity of the composite portfolio.

POLICY LOANS

Policy loans are not separable from their associated insurance contract and bear no credit risk since they do not exceed the contract's cash surrender value, making these assets fully secured by the cash surrender value of the contracts. Therefore, the carrying amount of the policy loans is a reasonable approximation of their fair value.

OTHER INVESTMENTS

Included in other investments are private equity investments accounted for under the cost method of accounting. The fair value is based on the ownership percentage of the NAV of the underlying equity of the investments.

CASH AND CASH EQUIVALENTS

The carrying amounts approximate fair values due to the short-term maturities of these instruments.

RESTRICTED CASH

The carrying amounts approximate fair values due to the short-term maturities of these instruments.

FUNDING AGREEMENTS AND GICs

The estimated fair value of funding agreements and GICs is estimated using the rates currently offered for deposits of similar remaining maturities.

ANNUITY AND DEPOSIT LIABILITIES

Annuity and deposit liabilities primarily includes policyholder deposits and accumulated credited interest. The estimated fair value of annuity and deposit liabilities approximates carrying amount based on an analysis of discounted future cash flows with maturities similar to the product portfolio liabilities.

DEBT

The carrying amount of short-term debt is a reasonable estimate of its fair value because the interest rates are variable and based on current market rates. The estimated fair value of long-term debt is based on market quotes, except for VIE debt and non-recourse debt, for which an analysis is performed to ensure the carrying amounts are reasonable estimates of their fair values.

13. OTHER COMPREHENSIVE INCOME (LOSS)

The Company displays comprehensive income (loss) and its components on the consolidated statements of comprehensive income (loss) and consolidated statements of equity. The balance of and changes in each component of AOCI attributable to the Company are as follows:

	Unrealized Gain (Loss) on Securities Available for Sale, Net [1]	Gain (Loss) on Derivatives	Other, Net	Total Accumulated Other Comprehensive Income (Loss)
		(In Millions)		
Balance, January 1, 2013	$1,630	$31	($13)	$1,648
Change in OCI before reclassifications	(1,200) [2]	42	6	(1,152)
Income tax (expense) benefit	419	(15)		404
Amounts reclassified from AOCI	(79)	14		(65)
Income tax expense (benefit)	28	(5)		23
Balance, December 31, 2013	798	67	(7)	858
Change in OCI before reclassifications	790 [3]	18	(7)	801
Income tax (expense) benefit	(276)	(7)	2	(281)
Amounts reclassified from AOCI	(31)	6		(25)
Income tax expense (benefit)	11	(2)		9
Balance, December 31, 2014	1,292	82	(12)	1,362
Change in OCI before reclassifications	(1,097) [4]	7	(8)	(1,098)
Income tax (expense) benefit	384	(4)	3	383
Amounts reclassified from AOCI	63			63
Income tax benefit	(22)			(22)
Balance, December 31, 2015	$620	$85	($17)	$688

[1] See Note 5 and Note 9 for information related to DAC and future policy benefits.

[2] Includes allocation of holding gain from DAC and URR of $237 million and $370 million, respectively, for the year ended December 31, 2013.

[3] Includes allocation of holding loss from DAC and URR of ($94) million and ($523) million, respectively, for the year ended December 31, 2014.

[4] Includes allocation of holding gain from DAC and URR of $267 million and $347 million, respectively, for the year ended December 31, 2015.

RECLASSIFICATIONS FROM AOCI

The table below presents amounts reclassified from each component of AOCI and their locations on the consolidated statements of operations. Amounts are shown gross of tax.

Reclassification adjustments:	Years Ended December 31, 2015	2014	2013
	(In Millions)		
Unrealized (gain) loss on securities available for sale, net:			
Sale of securities available for sale	($18) (1)	($40) (1)	($97) (1)
OTTI recognized on securities available for sale	81 (2)	9 (2)	18 (2)
Total unrealized (gain) loss on securities available for sale, net	63	(31)	(79)
(Gain) loss on derivatives:			
Foreign currency and interest rate swaps		3 (1)	
	(2) (3)	(3) (3)	(2) (3)
	2 (4)	6 (4)	16 (4)
Total loss on derivatives	-	6	14
Total amounts reclassified from AOCI	$63	($25)	($65)

Location on the consolidated statements of operations:

(1) Net realized investment gain (loss) (2) OTTI (3) Net investment income (4) Interest credited to policyholder account balances

14. REINSURANCE

The accounting for reinsurance requires extensive use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risk. The Company periodically reviews, and modifies as appropriate, the estimates and assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance. Reinsurance receivables, included in other assets, were $1,159 million and $848 million as of December 31, 2015 and 2014, respectively. Reinsurance payables, included in other liabilities, were $257 million and $208 million as of December 31, 2015 and 2014, respectively.

The components of insurance premiums presented in the consolidated statements of operations are as follows:

	Years Ended December 31, 2015	2014	2013
	(In Millions)		
Direct premiums	$1,018	$1,035	$1,098
Reinsurance assumed (1)	1,307	787	540
Reinsurance ceded	(392)	(377)	(356)
Insurance premiums	$1,933	$1,445	$1,282

(1) Included are $319 million, $77 million and $25 million of assumed premiums from Pacific Life Re Limited (PLR), an affiliate of the Company and a wholly owned subsidiary of Pacific LifeCorp, for the years ended December 31, 2015, 2014 and 2013, respectively. PLR is incorporated in the UK and provides reinsurance to insurance and annuity providers in the UK, Ireland, Australia and to insurers in selected markets in Asia.

15. INCOME TAXES

The provision for income taxes is as follows:

	Years Ended December 31,		
	2015	2014	2013
	(In Millions)		
Current	$36	$47	$13
Deferred	113	55	118
Provision for income taxes	$149	$102	$131

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

	Years Ended December 31,		
	2015	2014	2013
	(In Millions)		
Provision for income taxes at the statutory rate	$263	$218	$281
Separate account dividends received deduction	(84)	(82)	(89)
Singapore Transfer	(14)	(22)	(34)
LIHTC and foreign tax credits	(20)	(15)	(16)
Other	4	3	(11)
Provision for income taxes	$149	$102	$131

ACG transfers aircraft assets and related liabilities to foreign subsidiaries in Singapore (collectively referred to as the Singapore Transfer). The Singapore Transfer decreases the provision for income taxes primarily due to the reversal of deferred tax liabilities related to basis differences in the aircraft assets 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.

It is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. In addition to those basis differences transferred during 2015, 2014 and 2013, as of December 31, 2015, the Company has not made a provision for U.S. or additional foreign withholding taxes of approximately $23 million of foreign subsidiary undistributed earnings that are essentially permanent in duration. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

The Company identified a liability for uncertain tax positions of $58 million for a tax position for which there is uncertainty about the timing, but not the deductibility, of tax deductions relating to depreciation. The Company intends to file an application for an automatic change in the method of accounting with the Internal Revenue Service (IRS) in 2016 which will eliminate the contingency upon filing. None of the uncertain tax position affects the effective tax rate.

Because this tax contingency would serve to reduce existing net operating loss carryforwards, pursuant to ASU 2013-11, the Company recorded the contingency as an offset against the deferred tax asset for net operating loss carryforwards. Since the contingency only reduces net operating loss carryforwards, this contingency requires no accrual for interest or penalties. A reconciliation in the changes in the unrecognized tax benefits is as follows (*In Millions*):

Balance as of January 1, 2014	$ -
Additions and deletions	
Balance as of December 31, 2014	-
Gross increase - prior year positions	58
Balance as of December 31, 2015	$58

During the years ended December 31, 2015, 2014 and 2013, the Company paid an insignificant amount of interest and penalties to state tax authorities.

The net deferred tax liability, included in other liabilities, is comprised of the following tax effected temporary differences:

	December 31,	
	2015	2014
	(In Millions)	
Deferred tax assets:		
Policyholder reserves	$797	$866
Investment valuation	548	589
Tax credit carryforwards	389	370
Tax net operating loss carryforwards	242	344
Deferred compensation	76	72
Other	134	102
Total deferred tax assets	2,186	2,343
Deferred tax liabilities:		
DAC	(1,176)	(1,295)
Depreciation	(917)	(847)
Hedging	(450)	(429)
Partnership income	(113)	(115)
Other	(33)	(47)
Total deferred tax liabilities	(2,689)	(2,733)
Net deferred tax liability	(503)	(390)
Unrealized gain on derivatives and securities available for sale	(358)	(716)
Other adjustments	(5)	(8)
Net deferred tax liability	($866)	($1,114)

The tax net operating loss carryforwards relate to Federal tax losses incurred in 2006 through 2014 with a 20-year carryforward for non-life losses and a 15-year carryforward for life losses, and California tax losses incurred in 2005 through 2014 with a ten-year carryforward.

The tax credit carryforwards relate to LIHTC, foreign tax credits, and alternative minimum tax (AMT) credits generated from 2000 to 2014. The LIHTC and foreign tax credits begin to expire in 2020. Foreign tax credits, LIHTC and tax net operating loss carryforwards of $170 million expire between 2020 and 2025. AMT credits of $134 million possess no expiration date. The remainder will expire between 2026 and 2034.

The Codification’s Income Taxes Topic requires separate footnote disclosure of the impact of foreign taxes. While the Company does have foreign operations, the results of those operations have not been separately disclosed since they are not material.

The Codification's Income Taxes Topic requires the reduction of deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that a portion or all of the deferred tax assets will not be realized. Based on management's assessment, it is more likely than not that the Company's deferred tax assets will be realized through future taxable income, including the reversal of deferred tax liabilities.

PMHC files income tax returns in U.S. Federal and various state jurisdictions. PMHC is under continuous audit by the IRS and is audited periodically by some state taxing authorities. The IRS has completed audits of PMHC's tax returns through the tax year ended December 31, 2008, and is auditing PMHC's tax returns for the tax years ended December 31, 2009, 2010, 2011 and 2012. The State of California is auditing tax year ended December 31, 2009. The Company does not expect the current Federal and California audits to result in any material assessments.

16. SEGMENT INFORMATION

The Company has four operating segments: Life Insurance, Retirement Solutions, Aircraft Leasing and Reinsurance. 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 primarily the upper income and corporate markets. Principal products include UL, indexed universal life, VUL, 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, national/regional wirehouses and a network of structured settlement brokers.

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 and international retrocession business, which assumes mortality risks from other life reinsurers. The international retrocession business serves clients primarily in Canada, Europe and 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.

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 net 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 December 31, 2015 and 2014, the Company had foreign investments with an estimated fair value of $10.4 billion and $10.2 billion, respectively. Aircraft leased to foreign customers were $7.1 billion and $6.6 billion as of December 31, 2015 and 2014, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the years ended December 31, 2015, 2014 and 2013.

The following segment information is as of and for the year ended December 31, 2015:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
REVENUES			*(In Millions)*			
Policy fees and insurance premiums	$1,206	$1,734		$1,239		$4,179
Net investment income	1,133	1,201	$1	25	$197	2,557
Net realized investment gain (loss)	17	186	1		30	234
OTTI	(58)	(27)			(11)	(96)
Investment advisory fees	27	296			30	353
Aircraft leasing revenue			833			833
Other income	21	207	23	17	(8)	260
Total revenues	2,346	3,597	858	1,281	238	8,320
BENEFITS AND EXPENSES						
Policy benefits	667	1,404		1,178		3,249
Interest credited	852	383			15	1,250
Commission expenses	345	831		24		1,200
Operating expenses	356	463	141	28	126	1,114
Depreciation of aircraft			342			342
Interest expense	7		231		176	414
Total benefits and expenses	2,227	3,081	714	1,230	317	7,569
Income (loss) before provision (benefit) for income taxes	119	516	144	51	(79)	751
Provision (benefit) for income taxes	30	89	37	18	(25)	149
Net income (loss)	89	427	107	33	(54)	602
Less: net loss attributable to noncontrolling interests					2	2
Net income (loss) attributable to the Company	$89	$427	$107	$33	($52)	$604
Total assets	$38,504	$80,383	$9,345	$1,550	$5,353	$135,135
DAC	1,462	3,201		56		4,719
Separate account assets	6,978	49,996				56,974
Policyholder and contract liabilities	28,718	25,434		1,000	295	55,447
Separate account liabilities	6,978	49,996				56,974

The following segment information is as of and for the year ended December 31, 2014:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
REVENUES			*(In Millions)*			
Policy fees and insurance premiums	$933	$1,761		$720		$3,414
Net investment income	1,084	1,075	$1	14	$234	2,408
Net realized investment gain (loss)	12	(629)		(1)	21	(597)
OTTI	(4)	(8)			(12)	(24)
Investment advisory fees	27	308			41	376
Aircraft leasing revenue			796			796
Other income	20	204	24	9	2	259
Total revenues	2,072	2,711	821	742	286	6,632
BENEFITS AND EXPENSES						
Policy benefits	600	1,436		614		2,650
Interest credited	803	346			54	1,203
Commission expenses	212	166		20		398
Operating expenses	327	438	137	34	104	1,040
Depreciation of aircraft			336			336
Interest expense	6		244		133	383
Total benefits and expenses	1,948	2,386	717	668	291	6,010
Income (loss) before provision (benefit) for income taxes	124	325	104	74	(5)	622
Provision (benefit) for income taxes	33	41	12	26	(10)	102
Net income	91	284	92	48	5	520
Less: net (income) loss attributable to noncontrolling interests			(2)		5	3
Net income attributable to the Company	$91	$284	$90	$48	$10	$523
Total assets	$37,964	$82,206	$8,741	$923	$4,643	$134,477
DAC	1,311	3,370		61		4,742
Separate account assets	7,136	53,489				60,625
Policyholder and contract liabilities	27,179	23,764		597	829	52,369
Separate account liabilities	7,136	53,489				60,625

The following segment information is for the year ended December 31, 2013:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
REVENUES			*(In Millions)*			
Policy fees and insurance premiums	$1,073	$1,816		$476		$3,365
Net investment income	1,047	1,000	$5	14	$224	2,290
Net realized investment gain (loss)	27	886	1		(328)	586
OTTI	(10)	(6)			(11)	(27)
Investment advisory fees	26	288			37	351
Aircraft leasing revenue			736			736
Other income	14	190	24	9	16	253
Total revenues	2,177	4,174	766	499	(62)	7,554
BENEFITS AND EXPENSES						
Policy benefits	533	1,479		354		2,366
Interest credited	785	332			131	1,248
Commission expenses	278	1,056		20		1,354
Operating expenses	328	423	146	32	122	1,051
Depreciation of aircraft			326			326
Interest expense			232		175	407
Total benefits and expenses	1,924	3,290	704	406	428	6,752
Income (loss) before provision (benefit) for income taxes	253	884	62	93	(490)	802
Provision (benefit) for income taxes	76	220	(12)	33	(186)	131
Net income (loss)	177	664	74	60	(304)	671
Less: net (income) loss attributable to noncontrolling interests			2		(21)	(19)
Net income (loss) attributable to the Company	$177	$664	$76	$60	($325)	$652

17. TRANSACTIONS WITH RELATED PARTIES

PLFA serves as the investment adviser for the Pacific Select Fund and the Pacific Funds Series Trust. Investment advisory and other fees are based primarily upon the NAV of the underlying portfolios. These fees, included in investment advisory fees and other income, amounted to $378 million, $395 million and $367 million for the years ended December 31, 2015, 2014 and 2013, respectively. In addition, Pacific Life and PLFA provide certain support services to the Pacific Select Fund, the Pacific Funds Series Trust and other affiliates based on an allocation of actual costs. These fees amounted to $14 million, $15 million and $15 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Additionally, the Pacific Select Fund and Pacific Funds Series Trust have service and other plans whereby the funds pay Pacific Select Distributors, LLC (PSD), a wholly owned broker-dealer subsidiary of Pacific Life, as distributor of the funds, a service fee in connection with services rendered to or procured 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 years ended December 31, 2015, 2014 and 2013, PSD received $130 million, $136 million and $131 million, respectively, in service and other fees from the Pacific Select Fund and Pacific Funds Series Trust, which are recorded in other income.

Pacific Life and PL&A's structured settlement transactions are typically designed such that an affiliated assignment company assumes settlement obligations from external parties in exchange for consideration. The affiliated assignment company then funds the assumed settlement obligations by purchasing annuity contracts from Pacific Life and PL&A. Consequently, substantially all of the Pacific Life and PL&A's structured settlement annuities are sold to an affiliated assignment company. Included in the liability for future policy benefits are contracts with the affiliated assignment company with contract values of $2.9 billion and $2.6 billion as of December 31, 2015 and 2014, respectively. In addition, included in the liability for policyholder account balances are contracts with the affiliated assignment company of $1.7 billion and $1.3 billion as of December 31, 2015 and 2014, respectively. Related to these contracts, Pacific Life and PL&A received $298 million, $296 million and $381 million of insurance premiums and paid $164 million, $148 million and $125 million of policy benefits for the years ended December 31, 2015, 2014 and 2013, respectively.

ACG has derivative swap contracts with Pacific LifeCorp as the counterparty. The notional amounts total $579 million and $877 million as of December 31, 2015 and 2014, respectively. The estimated fair values of the derivatives were net liabilities of $22 million and $59 million as of December 31, 2015 and 2014, respectively.

18. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

Years Ending December 31:	Mortgage Loans	Limited Partnerships	Fixed Maturity Securities and Other Investments	Total
2016	$485	$207	$186	$878
2017 through 2018	559	211		770
2019 through 2020	71	87		158
2021 and thereafter		59	2	61
Total	$1,115	$564	$188	$1,867

The Company leases office facilities under various operating leases, which in most, but not all cases, are noncancelable. Rent expense, which is included in operating and other expenses, in connection with these leases was $8 million, $8 million and $9 million for the years ended December 31, 2015, 2014 and 2013, respectively. Aggregate minimum future office lease commitments are as follows *(In Millions)*:

Years Ending December 31:	
2016	$9
2017 through 2020	24
2021 and thereafter	6
Total	$39

As of December 31, 2015, ACG had commitments to purchase 122 aircraft scheduled for delivery through 2021. All of these commitments arise from fixed price purchase agreements with Boeing, Airbus and other third parties, and include adjustments for inflation. As of December 31, 2015, the aggregate estimated total remaining payments (including adjustments for certain contractual escalation provisions) total $5,974 million and are due as follows:

- up to $906 million in less than one year,
- an additional $1,908 million in one to three years,
- an additional $2,445 million in three to five years, and
- an additional $715 million thereafter.

As of December 31, 2015, deposits related to these agreements totaled $393 million and are included in other assets.

The Company entered into an agreement with PLR to guarantee the performance of reinsurance obligations of PLR. During 2015, Pacific Life entered into an agreement with Pacific Life Re (Australia) Pty Limited (PLRA), a wholly owned indirect subsidiary of Pacific LifeCorp, to guarantee the performance of reinsurance obligations of PLRA. These guarantees are secondary to the guarantees provided by Pacific LifeCorp and would only be triggered in the event of nonperformance by both PLR or PLRA and Pacific LifeCorp. Management believes that additional obligations, if any, related to the guarantee agreements are not likely to have a material adverse effect on the Company's consolidated financial statements.

Pacific Life has an agreement with PLRC to guarantee the performance of reinsurance obligations of PLRC. Management believes that additional obligations, if any, related to the guarantee agreement are not likely to have a material adverse effect on the Company's consolidated financial statements.

During 2015, Pacific Life entered into a commitment to provide funds, on Pacific LifeCorp's behalf, of up to approximately $150 million to PLR. This commitment is secondary to Pacific LifeCorp and is contingent on the nonperformance by Pacific LifeCorp. Management believes that additional obligations, if any, related to this commitment are not likely to have a material adverse effect on the Company's consolidated financial statements.

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 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 statements. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for litigation claims against the Company.

CONTINGENCIES - IRS REVENUE RULING

During 2007, the IRS issued Revenue Ruling 2007-54, which provided the IRS' interpretation of tax law regarding the computation of the Dividends Received Deductions (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. The IRS issued Revenue Ruling 2014-7 that superseded Revenue Ruling 2007-54 and Revenue Ruling 2007-61. This ruling holds that the IRS will not address this issue through regulation, but defer to legislative action. Depending on legislative action, the Company could lose a substantial amount of DRD tax benefits, which could have a material adverse effect on the Company's consolidated financial statements.

CONTINGENCIES - OTHER

In the course of its business, the Company provides certain indemnifications related to 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. Management believes that judgments, if any, against the Company related to such matters and the Company's estimate of reasonably possible losses exceeding amounts already recognized on an aggregated basis is immaterial and are not likely to have a material adverse effect on the Company's 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 the ACG VIE securitization (Note 4) 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 consolidated financial statements. The financial debt obligations of the ACG VIE securitization 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 2 for discussion of contingencies related to reinsurance of statutory reserves to affiliates.

See Note 8 for discussion of contingencies related to derivative instruments.

See Note 15 for discussion of other contingencies related to income taxes.