PACIFIC MUTUAL HOLDING COMPANY AND SUBSIDIARIES

Consolidated Financial Statements
as of December 31, 2016 and 2015 and
for the years ended December 31, 2016, 2015 and 2014
and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Pacific Mutual Holding Company and Subsidiaries:

We have audited the accompanying consolidated financial statements of Pacific Mutual Holding Company and Subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2016 and 2015, 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, 2016 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 Mutual Holding Company and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 2, 2017

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Millions)	December 31, 2016	2015
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$45,158	$40,602
Equity securities available for sale, at estimated fair value	127	136
Fair value option securities	529	536
Mortgage loans (includes VIE assets of $1,800 and $1,800)	12,175	11,092
Policy loans	7,437	7,331
Other investments (includes VIE assets of $298 and $216)	2,755	2,050
TOTAL INVESTMENTS	68,181	61,747
Cash and cash equivalents (includes VIE assets of $10 and $11)	1,586	2,039
Restricted cash (includes VIE assets of $0 and $117)	197	269
Deferred policy acquisition costs	4,793	5,014
Aircraft, net (includes VIE assets of $0 and $713)	7,855	8,307
Other assets (includes VIE assets of $17 and $44)	3,260	2,834
Separate account assets	57,426	56,974
TOTAL ASSETS	$143,298	$137,184
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$44,907	$41,359
Future policy benefits	16,155	14,984
Debt (includes VIE debt of $1,560 and $1,813)	9,971	10,310
Other liabilities (includes VIE liabilities of $8 and $167)	3,699	3,449
Separate account liabilities	57,426	56,974
TOTAL LIABILITIES	132,158	127,076
Commitments and contingencies (Note 18)		
Members' Equity:		
Members' capital	10,194	9,363
Accumulated other comprehensive income	828	661
Total Members' Equity	11,022	10,024
Noncontrolling interests	118	84
TOTAL EQUITY	11,140	10,108
TOTAL LIABILITIES AND EQUITY	$143,298	$137,184

The abbreviation VIE above means variable interest entity.

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
(In Millions)	2016	2015	2014
REVENUES			
Policy fees and insurance premiums	$4,675	$4,361	$3,797
Net investment income	2,651	2,623	2,476
Net realized investment gain (loss)	179	310	(613)
OTTI, consisting of $53, $102 and $30 in total, net of $11, $6 and $4 recognized in OCI	(42)	(96)	(26)
Investment advisory fees	305	365	388
Aircraft leasing revenue	1,018	833	796
Other income	383	246	255
TOTAL REVENUES	9,169	8,642	7,073
BENEFITS AND EXPENSES			
Policy benefits paid or provided	3,635	3,324	2,937
Interest credited to policyholder account balances	1,309	1,253	1,207
Commission expenses	1,004	1,251	444
Operating and other expenses	2,142	1,976	1,850
TOTAL BENEFITS AND EXPENSES	8,090	7,804	6,438
INCOME BEFORE PROVISION FOR INCOME TAXES	1,079	838	635
Provision for income taxes	232	181	99
Net income	847	657	536
Less: net (income) loss attributable to noncontrolling interests	(23)	4	4
NET INCOME ATTRIBUTABLE TO THE COMPANY	$824	$661	$540

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)	2016	2015	2014
NET INCOME	$847	$657	$536
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	314	(741)	679
Reclassification adjustment for (gain) loss included in net income	(57)	20	(22)
Gain (loss) on derivatives and unrealized gain (loss) on securities available for sale, net	257	(721)	657
Foreign currency translation adjustments	(93)	(43)	(33)
Other, net	3	(32)	29
Other comprehensive income (loss)	167	(796)	653
Comprehensive income (loss)	1,014	(139)	1,189
Less: comprehensive (income) loss attributable to noncontrolling interests	(23)	4	4
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$991	($135)	$1,193

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF EQUITY

(In Millions)	Members' Capital	Accumulated Other Comprehensive Income (Loss): Gain (Loss) On Derivatives and Unrealized Gain (Loss) On Securities Available for Sale, Net	Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation Adjustments and Other, Net	Total Members' Equity	Noncontrolling Interests	Total Equity
BALANCES, JANUARY 1, 2014	**$8,132**	**$839**	**($35)**	**$8,936**	**$37**	**$8,973**
Comprehensive income (loss):						
Net income (loss)	540			540	(4)	536
Other comprehensive income (loss)		657	(4)	653		653
Total comprehensive income (loss)				1,193	(4)	1,189
Change in equity of noncontrolling interests					69	69
BALANCES, DECEMBER 31, 2014	**8,672**	**1,496**	**(39)**	**10,129**	**102**	**10,231**
Comprehensive loss:						
Net income (loss)	661			661	(4)	657
Other comprehensive loss		(721)	(75)	(796)		(796)
Total comprehensive loss				(135)	(4)	(139)
Assumption of noncontrolling interest (Note 7)	30			30	(30)	-
Change in equity of noncontrolling interests					16	16
BALANCES, DECEMBER 31, 2015	**9,363**	**775**	**(114)**	**10,024**	**84**	**10,108**
Comprehensive income:						
Net income	824			824	23	847
Other comprehensive income (loss)		257	(90)	167		167
Total comprehensive income				991	23	1,014
Assumption of noncontrolling interest (Note 7)	7			7	(7)	-
Change in equity of noncontrolling interests					18	18
BALANCES, DECEMBER 31, 2016	**$10,194**	**$1,032**	**($204)**	**$11,022**	**$118**	**$11,140**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)	Years Ended December 31, 2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$847	$657	$536
Adjustments to reconcile net income to net cash provided by operating activities:			
Net accretion on fixed maturity securities	(47)	(67)	(85)
Depreciation and amortization	432	477	450
Deferred income taxes	130	132	30
Net realized investment (gain) loss	(179)	(310)	613
Other than temporary impairments	42	96	26
Net change in deferred policy acquisition costs	59	274	(642)
Interest credited to policyholder account balances	1,309	1,253	1,207
Net change in future policy benefits	1,527	1,244	1,670
Other operating activities, net	(173)	254	11
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,947	4,010	3,816
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed maturity and equity securities available for sale:			
Purchases	(8,349)	(8,190)	(6,237)
Sales	1,409	980	1,986
Maturities and repayments	2,867	2,209	2,437
Purchases of fair value option securities			(498)
Repayments of mortgage loans	410	863	917
Fundings of mortgage loans and real estate	(1,934)	(1,750)	(1,243)
Funding of CMBS VIE mortgage loan		(1,050)	(750)
Proceeds from sale of real estate	179	3	
Net change in policy loans	(106)	(97)	(79)
Terminations of derivative instruments, net	137	159	9
Proceeds from nonhedging derivative settlements	120	135	66
Payments for nonhedging derivative settlements	(583)	(298)	(349)
Net change in cash collateral received or pledged	71	(39)	150
Purchases of and advance payments on aircraft	(1,241)	(1,306)	(1,068)
Proceeds from sale of aircraft	954	168	266
Other investing activities, net	(200)	330	414
NET CASH USED IN INVESTING ACTIVITIES	(6,266)	(7,883)	(3,979)

(Continued)

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

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)	2016	2015	2014
	Years Ended December 31,		
(Continued)			
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account balances:			
Deposits	$6,727	$6,075	$5,900
Withdrawals	(4,751)	(5,419)	(4,957)
Net change in short-term debt and revolving credit facilities	564	227	248
Issuance of long-term debt	504	1,030	147
Issuance of CMBS VIE debt		845	676
Partial retirement of surplus notes	(80)		
Payments of long-term debt	(1,345)	(828)	(532)
Other financing activities, net	247	326	69
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,866	2,256	1,551
Net change in cash and cash equivalents	(453)	(1,617)	1,388
Cash and cash equivalents, beginning of year	2,039	3,656	2,268
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,586	$2,039	$3,656
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes paid (received), net	$127	($68)	($248)
Interest paid	$433	$416	$364

See Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Mutual Holding Company (PMHC), a Nebraska mutual holding company, is the parent of Pacific LifeCorp, an intermediate Delaware stock holding company. Pacific LifeCorp owns 100% of Pacific Life Insurance Company (Pacific Life), a Nebraska domiciled stock life insurance company. PMHC 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 PMHC 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 PMHC 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.

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 policy benefits
- Income taxes
- Reinsurance transactions
- Litigation and other contingencies

Certain reclassifications have been made to the 2015 and 2014 consolidated financial statements to conform to the 2016 consolidated financial statement presentation.

The Company has evaluated events subsequent to December 31, 2016 through March 2, 2017, the date the consolidated financial statements were available to be issued. See Note 11 for discussion of a subsequent event for a debt issuance in January 2017.

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).

Cost method investments are assessed for impairment. An impairment occurs if it is probable that the Company will not be able to recover the carrying amount of the investment and is written down to its estimated fair value.

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, which is generally 25 years from the date of manufacture. 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 was $63 million as of December 31, 2016 and 2015. There were no goodwill impairments recognized during the years ended December 31, 2016, 2015 and 2014.

POLICYHOLDER ACCOUNT BALANCES

Policyholder account balances on UL and certain investment-type contracts, such as funding agreements, 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 0.1% to 10.7%.

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 0.8% 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, 2016 and 2015, 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, and provide additional capacity for future growth. 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 liable. The Company evaluates the financial strength and stability of each reinsurer prior to 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.

The Company has assumed reinsurance agreements with other insurance companies, which primarily include traditional life reinsurance and non-traditional longevity reinsurance. Non-traditional longevity reinsurance provides protection to retirement plans and insurers of such plans against changes in mortality improvement. With a non-traditional longevity reinsurance transaction, the Company agrees with another party to exchange a predefined benefit and the realized benefit for a premium.

The Company utilizes reinsurance accounting 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, 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. Reinsurance terminations and recapture gains are recorded in other income.

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, 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 $254 million and $100 million as of December 31, 2016 and 2015, 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.

FOREIGN CURRENCY

The reporting currency for these consolidated financial statements is the U.S. dollar. The Company uses a number of functional currencies for its operations outside the U.S. A functional currency is defined as the currency of the primary economic environment in which an entity operates. The translation of the functional currencies into U.S. dollars is performed for asset, liability and equity accounts using current exchange rates in effect as of the last day of the year and for revenue and benefit and expense accounts using the quarterly average rates. Gains or losses, net of applicable deferred income taxes, resulting from such translation are included in the accumulated other comprehensive income (AOCI) on the consolidated statements of financial condition.

Gains or losses from foreign currency transactions, including the effect of remeasurement of foreign-denominated monetary assets and liabilities to the appropriate functional currency, are primarily included in net realized investment gain (loss) or operating and other expense on the consolidated statements of operations in the period in which they occur.

INCOME TAXES

PMHC and its includable subsidiaries are included in the consolidated Federal income tax return and the combined California franchise tax return of the Company 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 the United Kingdom (UK), 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 April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, which requires debt issuance costs to be presented 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. On January 1, 2016, the Company retrospectively adopted this ASU which resulted in a change in presentation of these costs on the consolidated statements of financial condition and Note 11. Other assets and debt as of December 31, 2015 have decreased by $95 million to reflect the change in presentation of debt issuance costs.

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 types of 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 adopted this ASU retrospectively on January 1, 2016. The adoption did not have a material impact on the VIE footnote (Note 4) and had no impact on the Company's consolidated financial statements.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In November 2016, the FASB issued ASU 2016-18 that provides guidance on the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU will require companies to include restricted cash within cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. Transfers between cash, cash equivalents and restricted cash during the period should not be reflected in the statement of cash flows. This ASU is effective January 1, 2018 and will be applied retrospectively. Adoption will change the Company's presentation of restricted cash on the consolidated statements of cash flows with the inclusion of the restricted cash balance in the beginning and ending cash and cash equivalents balance and the elimination of the restricted cash activity included in other financing activities, net in the cash flows from financing activities.

In June 2016, the FASB issued ASU 2016-13 that provides guidance on measurement of credit losses on financial instruments. This ASU replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. The effective date to adopt this ASU is January 1, 2021 with a cumulative-effect adjustment to retained earnings under a modified-retrospective approach. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 that provides guidance on leasing transactions. The new guidance requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, leases would be classified as finance or operating leases. However, unlike current guidance, the new guidance will require both types of leases to be recognized on the consolidated statements of financial condition by the lessee. Lessor accounting will remain largely unchanged from current guidance except for certain targeted changes. The new guidance will also require new qualitative and quantitative disclosures. The new guidance is effective January 1, 2019, and requires a modified retrospective transition approach which includes a number of optional practical expedients. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 that amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new guidance changes the current accounting guidance related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. Under the guidance, the change which most significantly impacts the Company is that equity securities currently classified as available for sale will be measured at fair value through net income instead of OCI. Additionally, equity interests in limited partnerships interests and joint ventures currently accounted for under the cost method will also be measured at fair value. The effective date to adopt this ASU is January 1, 2018 and will be applied prospectively. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, a new revenue recognition standard. The new guidance will supersede nearly all existing revenue recognition guidance under U.S. GAAP; however, it will not impact the accounting for insurance contracts, leases, financial instruments and guarantees. For those contracts that are impacted by the new guidance, the guidance will require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, in exchange for those goods or services. This ASU is effective on January 1, 2018 and will be adopted retrospectively or under a modified retrospective approach. 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

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

The NE DOI has a prescribed accounting practice for certain synthetic guaranteed interest contract (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 $63 million and $62 million as of December 31, 2016 and 2015, 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, 2016 and 2015, the reserve for synthetic GICs using the NAIC SAP basis was zero.

STATUTORY NET INCOME AND SURPLUS

Statutory net income of Pacific Life was $850 million, $520 million and $635 million for the years ended December 31, 2016, 2015 and 2014, respectively. Statutory capital and surplus of Pacific Life was $8,548 million and $7,762 million as of December 31, 2016 and 2015, 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, 2016, Pacific Life's total statutory reserve credit was $2,081 million, of which $1,347 million was supported by third-party letters of credit and 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 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, 2016 and 2015, the letter of credit amounted to $730 million and $680 million, respectively, and was held in a trust with Pacific Life as beneficiary. PAR Vermont admitted $730 million and $677 million as assets in its statutory financial statements as of December 31, 2016 and 2015, 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 in 2013 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, 2016 and 2015, the note receivable amounted to $210 million and $159 million, respectively, and was held in a trust with Pacific Life as beneficiary. PBRC admitted $210 million and $159 million as an asset in its statutory financial statements as of December 31, 2016 and 2015, 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 $407 million letter of credit issued to PLRB by a highly rated bank for the benefit of Pacific Life, which was

renewed in August 2016 and expires August 2021. In connection with the reinsurance arrangements between Pacific Life and PLRB, Pacific LifeCorp entered into a capital maintenance agreement.

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. In December 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, 2016 and 2015, 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 AND INTERNAL SURPLUS NOTES

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 2016 statutory results, Pacific Life could pay $803 million in dividends in 2017 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 years ended December 31, 2016 and 2015. During the year ended December 31, 2014, Pacific Life paid dividends to Pacific LifeCorp of $200 million.

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 2016 statutory results, PL&A could pay $40 million in dividends to Pacific Life in 2017 without prior regulatory approval. During the years ended December 31, 2016, 2015 and 2014, PL&A paid dividends to Pacific Life of $39 million, $37 million and $35 million, respectively.

During 2010, Pacific LifeCorp purchased a $450 million internal surplus note from Pacific Life that matures in 2020. During 2013, Pacific LifeCorp purchased a $500 million internal surplus note from Pacific Life that matures in 2043. These internal surplus notes eliminate upon consolidation under U.S. GAAP. Pacific Life is required to pay Pacific LifeCorp interest on these internal surplus notes semiannually at fixed annual rates. All future payments of interest and principal on these internal surplus notes can be made only with the prior approval of the NE DOI.

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 $246 million and $260 million as of December 31, 2016 and 2015, respectively. Liabilities allocated to the Closed Block, which are

primarily included in future policy benefits, amounted to $252 million and $268 million as of December 31, 2016 and 2015, respectively. The net contribution to income from the Closed Block was $3 million, zero and $3 million for the years ended December 31, 2016, 2015 and 2014, 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.

CONSOLIDATED VIEs

The following table presents, as of December 31, 2016 and 2015, the consolidated assets and consolidated liabilities, which has been consolidated because the Company is the primary beneficiary:

	Consolidated VIEs	
	Consolidated Assets	Consolidated Liabilities
	(In Millions)	
December 31, 2016:		
Commercial mortgage-backed securities	$1,804	$1,524
Sponsored investment funds	281	22
Other	40	22
Total	$2,125	$1,568
December 31, 2015:		
Commercial mortgage-backed securities	$1,805	$1,525
Sponsored investment funds	225	10
Aircraft securitization	857	443
Other	14	2
Total	$2,901	$1,980

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. The assets of the CMBS VIE can only be used to settle their respective liabilities, and the Company is not responsible for any principal or interest shortfalls. The Company’s exposure is limited to its investment of $279 million as of December 31, 2016 and 2015. Non-recourse debt consolidated by the Company was $1,521 million as of December 31, 2016 and 2015 (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 $21 million and $10 million as of December 31, 2016 and 2015, respectively (included in other VIE debt in Note 11). The line of credit has a $55 million borrowing capacity. The Company's unfunded commitment to the limited partnerships was $244 million and $75 million as of December 31, 2016 and 2015, 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 financial support. ACG received ongoing compensation for its role as the remarketing and administrative agent and for various aircraft-related services.

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

During 2016, all of the outstanding debt associated with the securitization sponsored in 2005 was retired. The total equity at risk is sufficient to finance the activities of the securitization and it no longer qualifies as a VIE. However, the Company consolidates the assets and liabilities of the securitization, which remained a wholly owned subsidiary of ACG.

FINANCING STRUCTURES

ACG has participated in the design and formation of certain wholly owned legal entities that are consolidated. These legal entities enable ACG's lenders to perfect their security interest in financing structures used to purchase, lease, and obtain financings secured by various aircraft. These legal entities have entered into loans with various third parties and financial institutions which are primarily guaranteed by ACG and supported by secondary guarantees from either the Export-Import Bank of the United States (Ex-Im) or the export credit agencies of the UK, France and/or Germany (ECA). These legal entities are considered VIEs because they do not have sufficient equity at risk. Additionally, ACG bears significant risk of loss (through guarantees of the loans that are recourse to ACG), participates in gains through a capital lease and has the power to direct the activities that most significantly impact the economic performance of these legal entities. Therefore, it has been determined that ACG is the primary beneficiary of these VIEs.

Aircraft assigned as collateral with these financing structures as of December 31, 2016 and 2015, totaled $1,619 million and $1,822 million, respectively, and are included in aircraft, net on the consolidated statements of financial condition. Also, as of December 31, 2016 and 2015, debt, recourse only to ACG, associated with these financing structures totaled $886 million and $1,135 million, respectively, and are included in debt on the consolidated statements of financial condition. See Notes 7 and 11.

NON-CONSOLIDATED VIEs

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
December 31, 2016:	*(In Millions)*	
Mortgage loans	$88	$104
Private equity	520	989
Real estate	152	200
Other	13	13
Total	$773	$1,306
December 31, 2015:		
Mortgage loans	$60	$104
Private equity	746	1,215
Real estate	54	54
Other	56	56
Total	$916	$1,429

MORTGAGE LOANS

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

PRIVATE EQUITY

Private equity are limited partnership investment funds that are reported in other investments.

REAL ESTATE

Real estate are limited partnership investments that are unconsolidated and accounted for under the equity method which are reported in other investments.

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,		
	2016	2015	2014
		(In Millions)	
Balance, January 1	$5,014	$5,031	$4,497
Additions:			
Capitalized during the year	553	601	663
Amortization:			
Allocated to commission expenses	(590)	(846)	(20)
Allocated to operating expenses	(22)	(29)	(1)
Total amortization	(612)	(875)	(21)
Allocated to OCI	(162)	257	(108)
Balance, December 31	$4,793	$5,014	$5,031

During the years ended December 31, 2016, 2015 and 2014, the Company revised certain assumptions utilized to develop EGPs for its products subject to DAC amortization. This resulted in increases in DAC amortization expense of $19 million and $50 million for the years ended December 31, 2016 and 2015, respectively, and a decrease in DAC amortization expense of $38 million for the year ended December 31, 2014. The revised EGPs also resulted in decreased URR amortization of $21 million and $128 million for the years ended December 31, 2016 and 2014, respectively, and increased URR amortization of $27 million for the year ended December 31, 2015.

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

	Years Ended December 31,		
	2016	2015	2014
		(In Millions)	
Balance, January 1	$592	$677	$608
Deferred costs capitalized during the year	14	17	30
Amortization of deferred costs	(52)	(102)	39
Balance, December 31	$554	$592	$677

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, 2016:				
U.S. Government	$65	$7		$72
Obligations of states and political subdivisions	813	132	$2	943
Foreign governments	1,444	96	21	1,519
Corporate securities	36,619	1,981	445	38,155
RMBS	2,199	95	36	2,258
CMBS	924	24	11	937
Other asset-backed securities	1,235	54	15	1,274
Total fixed maturity securities	$43,299	$2,389	$530	$45,158
Perpetual preferred securities	$87	$12	$3	$96
Other equity securities	28	4	1	31
Total equity securities	$115	$16	$4	$127

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
	(In Millions)			
December 31, 2015:				
U.S. Government	$68	$9		$77
Obligations of states and political subdivisions	815	125	$2	938
Foreign governments	1,243	117	9	1,351
Corporate securities	32,796	1,668	704	33,760
RMBS	2,492	115	49	2,558
CMBS	797	24	7	814
Collateralized debt obligations	55	10		65
Other asset-backed securities	994	57	12	1,039
Total fixed maturity securities	$39,260	$2,125	$783	$40,602
Perpetual preferred securities	$130	$9	$5	$134
Other equity securities	1	1		2
Total equity securities	$131	$10	$5	$136

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of December 31, 2016, 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	$1,469	$24	$2	$1,491
Due after one year through five years	7,214	491	41	7,664
Due after five years through ten years	17,043	439	182	17,300
Due after ten years	13,215	1,262	243	14,234
	38,941	2,216	468	40,689
Mortgage-backed and asset-backed securities	4,358	173	62	4,469
Total fixed maturity securities	$43,299	$2,389	$530	$45,158

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, 2016:			
Obligations of states and political subdivisions	2	$103	$2
Foreign governments	87	498	21
Corporate securities	880	10,226	445
RMBS	117	968	36
CMBS	18	322	11
Other asset-backed securities	67	588	15
Total fixed maturity securities	1,171	12,705	530
Perpetual preferred securities	3	13	3
Other equity securities	3	9	1
Other investments	7	18	4
Total other investments	13	40	8
Total	1,184	$12,745	$538

	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, 2016:						
Obligations of states and political subdivisions	2	$103	$2			
Foreign governments	75	467	17	12	$31	$4
Corporate securities	725	8,761	329	155	1,465	116
RMBS	35	442	6	82	526	30
CMBS	13	293	9	5	29	2
Other asset-backed securities	50	459	7	17	129	8
Total fixed maturity securities	900	10,525	370	271	2,180	160
Perpetual preferred securities				3	13	3
Other equity securities	3	9	1			
Other investments	4	9	1	3	9	3
Total other investments	7	18	2	6	22	6
Total	907	$10,543	$372	277	$2,202	$166

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2015:			
Obligations of states and political subdivisions	3	$134	$2
Foreign governments	47	168	9
Corporate securities	1,086	11,251	704
RMBS	103	973	49
CMBS	18	273	7
Other asset-backed securities	65	534	12
Total fixed maturity securities	1,322	13,333	783
Perpetual preferred securities	7	46	5
Other investments	4	18	5
Total other investments	11	64	10
Total	1,333	$13,397	$793

	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	43	149	7	4	$19	$2
Corporate securities	926	9,938	425	160	1,313	279
RMBS	32	467	5	71	506	44
CMBS	18	273	7			
Other asset-backed securities	61	528	10	4	6	2
Total fixed maturity securities	1,083	11,489	456	239	1,844	327
Perpetual preferred securities	5	37	2	2	9	3
Other investments	4	18	5			
Total other investments	9	55	7	2	9	3
Total	1,092	$11,544	$463	241	$1,853	$330

The gross unrealized losses on available for sale securities and other investments in the tables above decreased from $793 million as of December 31, 2015 to $538 million as of December 31, 2016. This decrease is primarily due to increases in the energy, metals and mining sectors, as a result of increases in oil, natural gas, and commodity prices.

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.

Certain assets related to the international retrocession business (Note 16) are held as collateral in restricted reinsurance trusts. If the estimated fair market value of the assets in these trusts falls below a minimum value, the Company is required to promptly deposit additional funds into the trusts to account for any shortfall. As of December 31, 2016, fixed maturity securities available for sale and restricted cash with an estimated fair value of $669 million and $15 million, respectively, were held in these trusts.

The Company has 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,	
	2016	2015
	(In Millions)	
Security loans outstanding, estimated fair value [1]	$178	$157
Reinvestment portfolio, estimated fair value [2]	184	161
Cash collateral liability [3]	184	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,		
	2016	2015	2014
	(In Millions)		
Fixed maturity securities	$1,871	$1,750	$1,692
Equity securities	5	7	8
Mortgage loans	550	582	451
Real estate	122	105	103
Policy loans	205	201	202
Partnerships and joint ventures	39	106	165
Other	46	41	26
Gross investment income	2,838	2,792	2,647
Investment expense	187	169	171
Net investment income	$2,651	$2,623	$2,476

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

	Years Ended December 31,		
	2016	2015	2014
	(In Millions)		
Fixed maturity securities:			
Gross gains on sales	$117	$53	$59
Gross losses on sales	(14)	(11)	(17)
Total fixed maturity securities	103	42	42
Equity securities:			
Gross gains on sales	1	6	7
Gross losses on sales	(1)		
Total equity securities	-	6	7
FVO securities and trading securities	(1)	(33)	69
Real estate	78	2	(1)
Non-marketable securities	12	48	
Variable annuity GLB embedded derivatives	163	63	(741)
Variable annuity GLB policy fees	169	217	210
Variable annuity derivatives - total return swaps	(113)	(22)	(101)
Variable annuity derivatives - futures	(272)	(48)	(101)
Variable annuity derivatives - interest rate swaps	1	4	18
Fixed indexed annuity embedded derivatives	(47)	(5)	(27)
Fixed indexed annuity derivatives - futures	45	(2)	21
Equity put options			(32)
Synthetic GIC policy fees	44	44	44
Foreign currency and interest rate swaps	(7)	22	27
Life indexed account embedded derivatives	(100)	51	(136)
Life indexed account derivatives - call options	98	(58)	126
Other	6	(21)	(38)
Net realized investment gain (loss)	$179	$310	($613)

The tables below summarize the OTTI by investment type:

	Recognized in Earnings	Included in OCI	Total
		(In Millions)	
Year ended December 31, 2016:			
Corporate securities	$22	$3	$25
RMBS	12	8	20
OTTI - fixed maturity securities	34	11	45
Other investments	6		6
Real estate	2		2
Total OTTI	$42	$11	$53
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	$4		$4
RMBS	5	$4	9
Perpetual preferred securities	2		2
OTTI - fixed maturity and equity securities	11	4	15
Mortgage loans	14		14
Real estate	1		1
Total OTTI	$26	$4	$30

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,	
	2016	2015
	(In Millions)	
Cumulative credit loss, January 1	$187	$188
Additions for credit impairments recognized on:		
Securities previously other than temporarily impaired	10	2
Securities not previously other than temporarily impaired	2	
Total additions	12	2
Reductions for credit impairments previously recognized on:		
Securities due to an increase in expected cash flows and time value of cash flows	(4)	(3)
Securities sold	(21)	
Total subtractions	(25)	(3)
Cumulative credit loss, December 31	$174	$187

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, 2016:			
Obligations of states and political subdivisions		$2	$2
Foreign governments		21	21
Corporate securities	$4	441	445
RMBS	20	16	36
CMBS		11	11
Other asset-backed securities		15	15
Total fixed maturity securities	$24	$506	$530
Perpetual preferred securities		$3	$3
Other equity securities		1	1
Total equity securities	-	$4	$4
December 31, 2015:			
Obligations of states and political subdivisions		$2	$2
Foreign governments		9	9
Corporate securities	$2	702	704
RMBS	36	13	49
CMBS		7	7
Other asset-backed securities		12	12
Total fixed maturity securities	$38	$745	$783
Perpetual preferred securities		$5	$5
Total equity securities	-	$5	$5

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

	Years Ended December 31,		
	2016	2015	2014
	(In Millions)		
Available for sale securities:			
Fixed maturity	$537	($1,708)	$1,573
Equity	8	(3)	(2)
Total available for sale securities	$545	($1,711)	$1,571

Trading securities, included in other investments, totaled $305 million and $228 million as of December 31, 2016 and 2015, respectively. The cumulative net unrealized gain (loss) on trading securities held as of December 31, 2016 and 2015 were $2 million and ($2) million, respectively. Net unrealized gain (loss) recognized in net realized investment gain (loss) on trading securities still held at the reporting date were $3 million, ($4) million and $1 million as of December 31, 2016, 2015 and 2014, respectively.

FVO securities consist of U.S. Government securities. FVO securities totaled $529 million and $536 million as of December 31, 2016 and 2015, respectively. The change in unrealized gain (loss) on FVO securities is recognized in net realized investment gain (loss) and was ($7) million and ($27) million for the years ended December 31, 2016 and 2015, respectively. Interest income earned from FVO securities is recorded in net investment income and was $17 million for the years ended December 31, 2016 and 2015.

As of December 31, 2016 and 2015, fixed maturity securities of $12 million were on deposit with state insurance departments to satisfy regulatory requirements.

Mortgage loans totaled $12,175 million and $11,092 million as of December 31, 2016 and 2015, respectively. Mortgage loans are collateralized primarily by commercial properties primarily located throughout the U.S. As of December 31, 2016, $2,395 million, $1,705 million, $1,679 million, $1,390 million and $1,139 million were located in Texas, California, New York, Washington and District of Columbia, respectively. Included in the December 31, 2016 amounts for Texas and New York are $1,050 million and $750 million, respectively, consolidated from the CMBS VIEs (Note 4). As of December 31, 2016, $319 million and $163 million were located in Canada and the UK, respectively. The Company did not have any mortgage loans with accrued interest more than 180 days past due as of December 31, 2016 or 2015. As of December 31, 2016, there was no single mortgage loan investment that exceeded 10% of members' 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, 2016, there were 14 loans with a book value of $307 million that were considered impaired. Since the estimated fair value of the underlying collateral on these loans was greater than their carrying amount of the loans, no impairment loss was recorded. 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.

The following tables set forth mortgage loan credit levels as of December 31, 2016 and 2015 (*$ In Millions*):

	December 31, 2016									
			Level 1		Level 2		Level 3			
	No Credit Concern		Minimal Credit Concern		Moderate Credit Concern		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
Agricultural	$2	3.07							$2	3.07
Apartment	701	1.85	$138	1.09					839	1.73
Golf course	23	2.33	15	0.88	$42	1.05	$52	0.79	132	1.16
Lodging	1,321	2.51					175	0.86	1,496	2.32
Industrial					18	2.21			18	2.21
Mobile home park	192	2.77							192	2.77
Office	3,357	2.02	446	1.62			21	0.38	3,824	1.97
Office - VIE	750	3.47							750	3.47
Residential	38	1.45							38	1.45
Retail	2,336	2.20							2,336	2.20
Retail - VIE	1,050	3.24							1,050	3.24
Construction	1,498								1,498	
Total mortgage loans	$11,268	2.37	$599	1.48	$60	1.40	$248	0.80	$12,175	2.28

	December 31, 2015									
			Level 1		Level 2		Level 3			
	No Credit Concern		Minimal Credit Concern		Moderate Credit Concern		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
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

Real estate investments totaled $647 million and $351 million as of December 31, 2016 and 2015, respectively. As of December 31, 2016, the Company had one real estate investment property with a book value prior to impairment measurement of $4 million that was considered impaired and an impairment loss of $2 million was recognized as the fair value of this property was lower than its carrying amount. 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. See Note 12.

7. AIRCRAFT, NET

Aircraft, net, consists of the following:

	December 31,	
	2016	2015
	(In Millions)	
Aircraft	$9,552	$10,249
Accumulated depreciation	1,697	1,942
Aircraft, net	$7,855	$8,307

The following table presents, by year, the future minimum operating lease rentals ACG is due under noncancelable operating leases as of December 31, 2016 *(In Millions)*:

Years Ended December 31:	
2017	$810
2018	769
2019	704
2020	607
2021	510
Thereafter	1,135
Total	$4,535

Future minimum operating lease rentals to foreign customers represented 86% of the total.

Included in the table above are aircraft subleased to airlines with lease maturity dates ranging from 2021 to 2024 with total future rentals of $162 million. The revenue related to these aircraft, included in aircraft leasing revenue, was $27 million for each of the years ended December 31, 2016, 2015 and 2014. 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 $161 million.

As of December 31, 2016 and 2015, aircraft under operating lease with a carrying amount of $1,839 million and $2,871 million, respectively, were assigned as collateral to secure debt (Notes 4 and 11).

During the years ended December 31, 2016, 2015 and 2014, aircraft impairments of $152 million, $39 million and $37 million, respectively, were recognized and included in operating and other expenses. See Note 12.

Two and three aircraft were not subject to a signed lease or sales commitment, collectively representing approximately 1% of the carrying amount of aircraft as of December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016, 2015 and 2014, ACG had non cash transfers from aircraft orders and deposits (included in other assets) to aircraft, net of $319 million, $56 million and $443 million, respectively.

During the years ended December 31, 2016, 2015 and 2014, gain (loss) on the sale of aircraft of $11 million, ($1) million and $8 million, respectively, were recognized and included in other income. Aircraft held for sale totaled $325 million and $244 million as of December 31, 2016 and 2015, 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 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 was reduced to zero.

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. 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 employs hedging strategies (variable annuity derivatives) to mitigate equity risk associated with the GLBs not covered by reinsurance. The Company utilizes total return swaps and exchange-traded equity futures based upon domestic and international equity market indices to economically hedge the equity risk of the guarantees in its variable annuity products. Total return swaps are swaps whereby the Company agrees to exchange the difference between the economic risk and reward of an equity index and a floating rate of interest, calculated by reference to an agreed upon notional amount. Cash is paid and received over the life of the contract based on the terms of the swap. 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 fixed indexed annuity products where interest is credited to the policyholder's account balance based on domestic and/or international equity index changes, subject to various caps or participation rates. The indexed products contain embedded derivatives. The Company utilizes exchange-traded equity futures and total return swaps based upon broad market indices to economically hedge the interest credited paid to the policyholder based upon 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, 2016 and 2015.

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 domestic or international equity index, subject to various caps, thresholds and participation rates. 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,	
	2016	2015
	(In Millions)	
Variable annuity GLB embedded derivatives	$29,804	$31,562
Variable annuity derivatives - total return swaps	1,479	1,683
Variable annuity derivatives - futures	939	888
Variable annuity derivatives - interest rate swaps	115	110
Fixed indexed annuity embedded derivatives	3,506	2,638
Fixed indexed annuity derivatives - total return swaps	13	12
Fixed indexed annuity derivatives - futures	385	410
Synthetic GICs	22,052	21,451
Foreign currency and interest rate swaps	1,235	1,245
Life indexed account embedded derivatives	3,975	3,251
Life indexed account derivatives - call options	4,343	3,528
Other	622	431

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. 13% of variable annuity notional amounts are reinsured by third-party reinsurers as of December 31, 2016 and 2015.

The following table summarizes amounts recognized in net realized investment gain (loss) for derivatives not designated as hedging instruments. Gains and losses include the changes in estimated fair value of the derivatives and amounts realized on terminations. The amounts presented do not include the periodic net payments and amortization of $478 million, $195 million and $299 million for the years ended December 31, 2016, 2015 and 2014, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Income on Derivatives		
	Years Ended December 31,		
	2016	2015	2014
	(In Millions)		
Variable annuity derivatives - total return swaps	($18)	$2	$29
Variable annuity derivatives - interest rate swaps	(1)	2	16
Equity put options			(23)
Foreign currency and interest rate swaps	27	66	4
Life indexed account derivatives - call options	248	59	206
Other	(1)	(4)	(5)
Embedded derivatives:			
Variable annuity GLB embedded derivatives	163	63	(741)
Fixed indexed annuity embedded derivatives	(47)	(5)	(27)
Life indexed account embedded derivatives	(100)	51	(136)
Other	(4)	2	(5)
Total	$267	$236	($682)

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 15 years.

The Company had outstanding foreign currency and interest rate swaps designated as cash flow hedges with notional amounts of $352 million and $310 million as of December 31, 2016 and 2015, 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 $6 million, $7 million and $18 million for the years ended December 31, 2016, 2015 and 2014, respectively. For the years ended December 31, 2016, 2015 and 2014, 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, zero and $1 million for the years ended December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014. Over the next twelve months, the Company anticipates that $1 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, 2016 and 2015.

CONSOLIDATED FINANCIAL STATEMENT IMPACT

Derivative instruments are recorded 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,		
	2016	2015		2016	2015	
	(In Millions)			*(In Millions)*		
Derivatives designated as hedging instruments:						
Foreign currency and interest rate swaps	$2		[1]	$3	$5	[1]
	6	$5	[5]	4	7	[5]
Total derivatives designated as hedging instruments	8	5		7	12	
Derivatives not designated as hedging instruments:						
Variable annuity derivatives - total return swaps	6	12	[1]	9	5	[1]
		3	[5]	5	2	[5]
Variable annuity derivatives - interest rate swaps	3	3	[1]	2	1	[1]
Foreign currency and interest rate swaps	77	108	[1]	28	15	[1]
	52	13	[5]	8	21	[5]
Life indexed account derivatives - call options	110	66	[1]		1	[1]
	110	19	[5]		1	[5]
Other	1		[1]			
Embedded derivatives:						
Variable annuity GLB embedded derivatives (including reinsurance contracts)	135	139	[2]	1,033	1,200	[3]
Fixed indexed annuity embedded derivatives				262	167	[4]
Life indexed account embedded derivatives				341	191	[4]
Other				14	7	[4]
				5	2	[5]
Total derivatives not designated as hedging instruments	494	363		1,707	1,613	
Total derivatives	$502	$368		$1,714	$1,625	

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 $145 million and $74 million as of December 31, 2016 and 2015, 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 $85 million as of December 31, 2016 and 2015. 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, 2016 and 2015, the Company had also accepted collateral, consisting of various securities, with an estimated fair value of $61 million and $45 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, 2016 and 2015, none of the collateral had been sold or repledged. As of December 31, 2016 and 2015, the Company provided collateral in the form of various securities with an estimated fair value of zero and $5 million, respectively, 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 (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, 2016:					
Derivative assets	$265	($171)	$94	($58)	$36
Derivative liabilities	62	(55)	7		7
December 31, 2015:					
Derivative assets	$191	($125)	$66	($45)	$21
Derivative liabilities	107	(81)	26		26

(1) As of December 31, 2016 and 2015, derivative assets include expense accruals of $98 million and $22 million, respectively, and derivative liabilities include expense accruals of $7 million and $66 million, respectively.

(2) As of December 31, 2016 and 2015, the Company received excess cash collateral of $9 million and $1 million, respectively, and provided excess cash collateral of $4 million and $1 million, 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 also include collateral arrangements with derivative counterparties, which require both the pledge and acceptance of collateral when the net estimated fair value of the underlying derivatives reaches a pre-determined threshold.

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, 2016 was $36 million. The maximum exposure to any single counterparty was $15 million as of December 31, 2016. 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, 2016, was $27 million for which the Company has posted collateral of $20 million. If certain of the Company's financial strength ratings were to fall one notch as of December 31, 2016, the Company would not have been required to post any additional 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, 2016, 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,	
	2016	2015
	(In Millions)	
UL	$26,989	$25,812
Annuity and deposit liabilities	17,072	14,894
Life indexed account embedded derivatives	341	191
Fixed indexed annuity embedded derivatives	262	167
Funding agreements	243	295
Total	$44,907	$41,359

FUTURE POLICY BENEFITS

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

	December 31,	
	2016	2015
	(In Millions)	
Annuity reserves	$8,757	$7,674
Policy benefits payable	2,996	2,921
Life insurance	1,822	1,664
URR	1,159	1,138
Variable annuity GLB embedded derivatives	1,033	1,200
Closed Block liabilities	252	268
Other	136	119
Total	$16,155	$14,984

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 no earlier than 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,	
	2016	2015
	($ In Millions)	
Return of net deposits:		
Separate account value	$49,764	$49,682
Net amount at risk [(1)]	582	1,083
Average attained age of contract holders	66 years	66 years
Anniversary contract value:		
Separate account value	$13,567	$13,835
Net amount at risk [(1)]	541	930
Average attained age of contract holders	68 years	67 years
Minimum return:		
Separate account value	$850	$884
Net amount at risk [(1)]	430	449
Average attained age of contract holders	72 years	71 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, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	GMIB		GMWBL [2]		GMWBL [3]	
	($ In Millions)		*($ In Millions)*		*($ In Millions)*	
Separate account value	$1,668	$1,755	$5,908	$5,422		
Net amount at risk [1]	232	265	316	379	$69	$52
Average attained age of contract holders	63 years	62 years	66 years	66 years	67 years	67 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.
(2) GMWBL related to variable contract annuities.
(3) GMWBL related to fixed contract annuities.

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, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	GMDB		GMIB		GMWBL [1]		GMWBL [2]	
	(In Millions)		*(In Millions)*		*(In Millions)*		*(In Millions)*	
Balance, beginning of year	$9	$5	$40	$25	$44	$21	$8	
Changes in reserves	14	15	6	18	11	23	7	$8
Benefits paid	(14)	(11)	(9)	(3)				
Balance, end of year	$9	$9	$37	$40	$55	$44	$15	$8

(1) GMWBL related to variable contract annuities.
(2) GMWBL related to fixed contract annuities.

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

	December 31, 2016	December 31, 2015
	(In Millions)	
Asset type:		
Equity	$31,408	$30,300
Bonds	15,278	15,666
Money market	298	319
Other	3,012	3,619
Total separate account value	$49,996	$49,904

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, 2015	$416	$126	$290
Incurred guaranteed benefits	142	29	113
Paid guaranteed benefits	(1)		(1)
Balance, December 31, 2015	557	155	402
Incurred guaranteed benefits	170	38	132
Paid guaranteed benefits	(2)	2	(4)
Balance, December 31, 2016	$725	$195	$530

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

	December 31,	
	2016	2015
	($ In Millions)	
Net amount at risk [1]	$16,461	$16,905
Average attained age of policyholders	60 years	59 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,	
	2016	2015
	(In Millions)	
Short-term debt and revolving credit facilities:		
Credit facility recourse only to ACG	$1,020	$485
Credit facility recourse only to Pacific Life Re Limited	22	4
Other VIE debt (Note 4)	21	10
Total short-term debt and revolving credit facilities	1,063	499
Long-term debt:		
Surplus notes	771	827
Senior notes	1,543	1,542
Fair value hedge adjustments - terminated interest rate swap agreements	462	499
Non-recourse long-term debt:		
Debt recourse only to ACG	3,357	3,886
VIE debt recourse only to ACG (Note 4)	886	1,135
Other non-recourse debt	428	214
ACG VIE debt (Note 4)		282
CMBS VIE debt (Note 4)	1,521	1,521
Other VIE debt	18	
Total long-term debt	8,986	9,906
Debt issuance cost	(78)	(95)
Total debt	$9,971	$10,310

SHORT-TERM DEBT AND REVOLVING CREDIT FACILITIES

Pacific LifeCorp maintains a $600 million revolving credit facility with various banks. Interest is at variable rates and the facility matures in May 2021. This facility had no debt outstanding as of December 31, 2016 and 2015.

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of December 31, 2016 and 2015. In addition, Pacific Life has a bank revolving credit facility of $400 million maturing in May 2021 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, 2016 and 2015.

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, 2016 and 2015.

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 $2.0 billion as of December 31, 2016. Interest is at variable or fixed rates. The Company had no debt outstanding with the FHLB of Topeka as of December 31, 2016 and 2015.

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 statutory 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

$50 million as of December 31, 2016. Interest is at variable or fixed rates. PL&A had no debt outstanding with the FHLB of San Francisco as of December 31, 2016 and 2015.

ACG has revolving credit facilities with banks totaling $1,720 million borrowing capacity as of December 31, 2016. Interest on these loans is at variable rates, payable monthly and was 1.9% as of December 31, 2016 and ranged from 1.9% to 2.1% as of December 31, 2015. The facilities expire at various dates ranging from 2019 to 2020. There was $1,020 million and $485 million outstanding in connection with these revolving credit facilities as of December 31, 2016 and 2015, respectively. These credit facilities are recourse only to ACG.

During 2015, Pacific Life Re Limited (PLR), a wholly owned indirect subsidiary of Pacific LifeCorp, entered into a revolving credit facility with a bank with a $75 million borrowing capacity. There was $22 million and $4 million outstanding in connection with this revolving credit facility as of December 31, 2016 and 2015, respectively. Interest is at variable rates, payable at the end of the loan period and was 1.3% and 1.4% as of December 31, 2016 and 2015, respectively. This facility expires in October 2019. This credit facility is recourse only to PLR.

LONG-TERM DEBT

Pacific Life has $621 million and $677 million of surplus notes outstanding as of December 31, 2016 and 2015, respectively, 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. In January 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. On February 11, 2016, Pacific Life, with the approval of the NE DOI, repurchased and retired an additional $56 million 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 $19 million and the premium paid of $24 million were recognized in interest expense during the year ended December 31, 2016. Pacific Life previously 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 $208 million and $231 million as of December 31, 2016 and 2015, respectively.

Pacific Life has $150 million of surplus notes outstanding as of December 31, 2016 and 2015, 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 previously 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 $35 million and $40 million as of December 31, 2016 and 2015, respectively.

Pacific LifeCorp has $450 million of senior notes outstanding at a fixed interest rate of 6.0%, maturing on February 10, 2020. An original issue discount of $3 million is being amortized over the life of the senior notes. Interest is payable semiannually on February 10 and August 10. Pacific LifeCorp may redeem all or a portion of these senior notes at any time at the redemption price described under the terms of these senior notes. The carrying amount as of December 31, 2016 and 2015 was $449 million and $448 million, respectively.

Pacific LifeCorp has $600 million of senior notes outstanding as of December 31, 2016 and 2015, at a fixed interest rate of 6.6%, maturing on September 15, 2033. Interest is payable semiannually on March 15 and September 15. Pacific LifeCorp may redeem all or a portion of these senior notes at any time at the redemption price described under the terms of the senior notes. Pacific LifeCorp previously terminated interest rate swaps converting the 6.6% senior notes to variable rate notes and fair value hedge adjustments of $291 million as of the termination dates were recorded and are being amortized as a reduction to interest expense over the remaining life of the senior notes using the effective interest method. The resulting effective interest rate of these senior notes is 3.7%. Total unamortized fair value hedge adjustments were $219 million and $228 million as of December 31, 2016 and 2015, respectively.

Pacific LifeCorp has $500 million of senior notes at a fixed interest rate of 5.125%, maturing on January 30, 2043. An original issue discount of $6 million is being amortized over the life of the senior notes. Interest is payable semiannually on January 30 and July 30. Pacific LifeCorp may redeem all or a portion of these senior notes at any time at the redemption price described under the terms of these senior notes. The carrying amount as of December 31, 2016 and 2015 was $494 million.

ACG enters into various secured loans that are guaranteed by the Ex-Im bank or by the ECA. Interest on these loans is payable quarterly and ranged from 1.2% to 3.9% as of December 31, 2016 and 0.6% to 3.9% as of December 31, 2015. As of December 31, 2016, $1,071 million was outstanding on these loans with maturities ranging from 2018 to 2024. As of December 31, 2015, $1,342 million was outstanding on these loans. These loans are recourse only to ACG. See Note 4 for amounts included related to VIEs.

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 0.7% to 7.2% as of December 31, 2016 and 1.2% to 7.2% as of December 31, 2015. As of December 31, 2016, $3,172 million was outstanding on these notes and loans with maturities ranging from 2017 to 2025. As of December 31, 2015, $3,679 million was outstanding on these notes and loans. These notes and loans are recourse only to ACG.

In January 2017, ACG issued $1.0 billion of five year unsecured senior notes with a fixed interest rate of 2.875%. These senior notes are recourse only to ACG.

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 ranged from 3.6% to 5.4% as of December 31, 2016 and were 3.6% as of December 31, 2015. The variable rates ranged from 2.1% to 3.4% as of December 31, 2016 and ranged from 1.7% to 2.6% as of December 31, 2015. As of December 31, 2016, there was $394 million outstanding on these loans with maturities ranging from 2017 to 2026. Included in this amount is $18 million of other VIE debt as of December 31, 2016. As of December 31, 2015, there was $161 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, 2016 and 2015, the Company has a secured borrowing of $52 million and $53 million, respectively, 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, 2016 and 2015, the Company has CMBS VIE debt of $1,521 million outstanding (Note 4). Interest rates are fixed and range from 3.5% to 3.6% with maturities from 2025 to 2044. This debt is secured by commercial real estate property, is non-recourse to the Company, and the Company is not responsible for any principal or interest shortfalls from the underlying collateral.

Certain of the Company’s debt instruments and credit facilities contain various administrative, reporting, legal and financial covenants. The Company believes it was in compliance with all such covenants as of December 31, 2016.

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

			Non-recourse Debt		
	Surplus Notes	Senior Notes	Debt Recourse Only to ACG	Other Non-recourse Debt	Total
Years Ending December 31:			(In Millions)		
2017			$193	$22	$215
2018			1,334	62	1,396
2019			369	18	387
2020		$449	959	87	1,495
2021			882	84	966
Thereafter	$771	1,094	506	155	2,526
Total	$771	$1,543	$4,243	$428	$6,985

The table above excludes short-term debt, revolving credit facilities, VIE debt and fair value hedge adjustments.

12. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The Accounting Standards Codification's (Codification) 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, 2016 and 2015.

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
December 31, 2016:			*(In Millions)*			
Assets:						
U.S. Government		$72				$72
Obligations of states and political subdivisions		917	$26			943
Foreign governments		1,470	49			1,519
Corporate securities		36,568	1,587			38,155
RMBS		2,223	35			2,258
CMBS		831	106			937
Other asset-backed securities		781	493			1,274
Total fixed maturity securities	-	42,862	2,296	-	-	45,158
Perpetual preferred securities		96				96
Other equity securities	$31					31
Total equity securities	31	96	-	-	-	127
FVO securities		529				529
Other investments:						
Trading securities	42	263				305
Other investments [2]	77	153	5			235
Other investments measured at NAV [3]						136
Total other investments carried at fair value	119	416	5	-	-	676
Derivatives:						
Foreign currency and interest rate swaps		140		$140	($91)	49
Equity derivatives			226	226	(119)	107
Embedded derivatives			135	135		135
Other		1		1		1
Total derivatives	-	141	361	502	(210)	292
Separate account assets:						
Separate account assets	57,070	111				57,181
Separate account assets measured at NAV [3]						245
Total separate account assets carried at fair value [4]	57,070	111	-	-	-	57,426
Total	$57,220	$44,155	$2,662	$502	($210)	$104,208
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$45		$45	($91)	($46)
Equity derivatives			$14	14	(119)	(105)
Embedded derivatives			1,655	1,655		1,655
Total	-	$45	$1,669	$1,714	($210)	$1,504

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
			(In Millions)			
December 31, 2015:						
Assets:						
U.S. Government		$77				$77
Obligations of states and political subdivisions		909	$29			938
Foreign governments		1,343	8			1,351
Corporate securities		32,140	1,620			33,760
RMBS		2,407	151			2,558
CMBS		760	54			814
Collateralized debt obligations			65			65
Other asset-backed securities		720	319			1,039
Total fixed maturity securities	-	38,356	2,246	-	-	40,602
Perpetual preferred securities		134				134
Other equity securities	$2					2
Total equity securities	2	134	-	-	-	136
FVO securities		536				536
Other investments:						
Trading securities	4	224				228
Other investments [2]	3	147	5			155
Other investments measured at NAV [3]						74
Total other investments carried at fair value	7	371	5	-	-	457
Derivatives:						
Foreign currency and interest rate swaps		129		$129	($39)	90
Equity derivatives			100	100	(28)	72
Embedded derivatives			139	139		139
Total derivatives	-	129	239	368	(67)	301
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	$39,640	$2,490	$368	($67)	$99,006
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$49		$49	($39)	$10
Equity derivatives			$9	9	(28)	(19)
Embedded derivatives			1,567	1,567		1,567
Total	-	$49	$1,576	$1,625	($67)	$1,558

(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 net asset value (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 recorded 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, 2016.

Asset Class	Estimated Fair Value	Redemption Frequency	Initial Lock-Up	Redemption Notice Period	Outstanding Commitment
		($ In Millions)			
Hedge funds	$87	Monthly - 22% Quarterly - 65% Semi-Annually - 3% Annually - 10%	None to 1 year	30 – 90 days	
Private equity funds	49	None	N/A	N/A	$227
Separate account hedge funds	245	Monthly - 29% Quarterly - 52% Semi-Annually - 9% Annually - 10%	None to 7 years	5 – 125 days	
Total measured at NAV	$381				$227

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.

All of the OTC derivatives were priced by valuation models as of December 31, 2016 and 2015. A credit valuation analysis was performed for all derivative positions that are uncollateralized to measure the nonperformance risk that the counterparties to the transaction will be unable to perform under the contractual terms and was determined to be immaterial as of December 31, 2016. Nonperformance risk is the Company's market-perceived risk of its own or the counterparty's nonperformance.

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.

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

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

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

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.

		Total Gains or Losses		Transfers	Transfers				
	January 1, 2016	Included in Earnings	Included in OCI	Into Level 3 [1]	Out of Level 3 [1]	Purchases	Sales	Settlements	December 31, 2016
					(In Millions)				
Obligations of states and political subdivisions	$29		($3)						$26
Foreign governments	8		(1)	$45				($3)	49
Corporate securities	1,620	($10)	79	168	($317)	$284	($89)	(148)	1,587
RMBS	151	(2)	3	20	(122)	7		(22)	35
CMBS	54		(2)	1	(36)	90		(1)	106
Collateralized debt obligations	65	18	(10)		(12)	13	(73)	(1)	-
Other asset-backed securities	319	1	(3)	63	(87)	256		(56)	493
Total fixed maturity securities	2,246	7	63	297	(574)	650	(162)	(231)	2,296
Other investments	5								5
Derivatives, net: [2]									
Equity derivatives	91	230						(109)	212
Embedded derivatives	(1,428)	12				(230)		126	(1,520)
Total derivatives	(1,337)	242	-	-	-	(230)	-	17	(1,308)
Total	$914	$249	$63	$297	($574)	$420	($162)	($214)	$993

	January 1, 2015	Total Gains or Losses Included in Earnings	Included in OCI	Transfers Into 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	70	48	(48)				(65)		5
Derivatives, net: [2]									
Equity derivatives	188	60						(157)	91
Embedded derivatives	(1,519)	111				(207)		187	(1,428)
Total derivatives	(1,331)	171	-	-	-	(207)	-	30	(1,337)
Separate account assets [3]	5				(6)	2	(1)		-
Total	$1,030	$239	($175)	$169	($519)	$506	($80)	($256)	$914

(1) Transfers in and/or out are recognized at the end of each quarter.
(2) Excludes derivative net settlements of ($245) million and ($141) million for the years ended December 31, 2016 and 2015, respectively, that are recorded in net realized investment gain (loss). Excludes synthetic GIC policy fees of $44 million for the years ended December 31, 2016 and 2015 that are recorded in net realized investment gain (loss). Excludes embedded derivative policy fees of $169 million and $217 million for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, 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, 2016:	Net Investment Income	Net Realized Investment Gain (Loss)	OTTI	Total
		(In Millions)		
Corporate securities	$14	$1	($25)	($10)
RMBS			(2)	(2)
Collateralized debt obligations	4	14		18
Other asset-backed securities	1			1
Total fixed maturity securities	19	15	(27)	7
Equity derivatives		230		230
Embedded derivatives		12		12
Total derivatives	-	242	-	242
Total	$19	$257	($27)	$249

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
Other investments		48		48
Equity derivatives		60		60
Embedded derivatives		111		111
Total derivatives	-	171	-	171
Total	$21	$229	($11)	$239

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, 2016	Years Ended December 31, 2015
	(In Millions)	
Derivatives, net: [1]		
Equity derivatives	$141	$38
Embedded derivatives	16	108
Total derivatives	$157	$146

[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, 2016 (*$ In Millions*).

	Estimated Fair Value Asset (Liability)	Predominant Valuation Method	Significant Unobservable Inputs	Range (Weighted Average)
Obligations of states and political subdivisions	$26	Discounted cash flow	Spread [(1)]	387-400 (396)
Foreign governments	49	Discounted cash flow	Spread [(1)]	172-221 (211)
		Market pricing	Quoted prices [(2)]	110
Corporate securities	1,587	Discounted cash flow	Spread [(1)]	45-961 (266)
		Collateral value	Collateral value [(3)]	53-145 (102)
		Market pricing	Quoted prices [(2)]	7-121 (104)
RMBS	35	Market pricing	Quoted prices [(2)]	58-100 (84)
CMBS	106	Market pricing	Quoted prices [(2)]	93-96 (95)
		Discounted cash flow	Spread [(1)]	140-440 (343)
			Prepayment rate	0%
			Default rate	0%
			Severity	0%
Other asset-backed securities	493	Discounted cash flow	Spread [(1)]	40-418 (114)
		Market pricing	Quoted prices [(2)]	75-115 (100)
		Cap at call price	Call price	100
Other investments	5	Redemption value	Redemption value [(4)]	100
Equity derivatives	212	Option pricing model	Equity volatility	14% - 48% (19%)
Embedded derivatives [(5)]	(1,520)	Option pricing techniques	Equity volatility	14% - 48%
			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% - 90%
			Lapse rates	0% - 100%
			Credit standing adjustment	0.41% - 1.72%
Total	$993			

(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) Since the valuation methodology for 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, 2016			Year Ended December 31, 2015		
	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)
Other investments and real estate	$12	$4	($8)	19	15	(4)
Aircraft	849	697	(152)	191	152	(39)

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 for the year ended December 31, 2015.

OTHER INVESTMENTS AND REAL ESTATE

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 NAV provided by the underlying investment managers. These investments are classified as Level 3 assets.

AIRCRAFT

The Company measured the fair value of aircraft on a nonrecurring basis as part of the recoverability assessment. The recoverability assessment is performed quarterly and whenever events or changes in circumstances indicate that the carrying amount of aircraft may not be recoverable. For aircraft that are held for use, the fair value measurements are based on the present value of the future cash flows (i.e., an income approach) that uses Level 3 inputs, which include contractual lease payments, projected future lease payments, projected sales prices, and the disposition value. For aircraft and aircraft held for sale, the fair value measurement is based on the estimated sales price, less selling costs (Level 2 input). Of the $697 million of estimated fair value after measurement, $88 million was valued using the income approach (Level 3 input) during the year ended December 31, 2016. The remaining amount was valued using the estimated sales price, less selling costs (Level 2 inputs).

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, 2016 and 2015. The Company has not made any significant 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, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Millions)			
Assets:				
Mortgage loans	$12,175	$12,413	$11,092	$11,623
Policy loans	7,437	7,437	7,331	7,331
Other investments	192	231	209	251
Cash and cash equivalents	1,586	1,586	2,039	2,039
Restricted cash	197	197	269	269
Liabilities:				
Funding agreements	243	239	295	290
Annuity and deposit liabilities	17,072	17,072	14,894	14,894
Short-term debt and revolving credit facilities	1,063	1,063	499	499
Long-term debt	8,986	9,305	9,906	10,440

The following methods and assumptions were used to estimate the fair value of these financial instruments as of December 31, 2016 and 2015:

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

The estimated fair value of funding agreements 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	Foreign Currency Translation Adjustments and Other, Net	Total Accumulated Other Comprehensive Income (Loss)
	(In Millions)			
Balance, January 1, 2014	$771	$68	($35)	$804
Change in OCI before reclassifications	996 [2]	18	3	1,017
Income tax expense	(329)	(6)	(7)	(342)
Amounts reclassified from AOCI	(38)	6		(32)
Income tax expense (benefit)	12	(2)		10
Balance, December 31, 2014	1,412	84	(39)	1,457
Change in OCI before reclassifications	(1,134) [2]	7	(64)	(1,191)
Income tax (expense) benefit	390	(4)	20	406
Amounts reclassified from AOCI	38	(1)	(48)	(11)
Income tax expense (benefit)	(17)		17	-
Balance, December 31, 2015	689	86	(114)	661
Change in OCI before reclassifications	446 [2]	6	(94)	358
Income tax (expense) benefit	(136)	(2)	4	(134)
Amounts reclassified from AOCI	(69)	(1)		(70)
Income tax expense	13			13
Balance, December 31, 2016	$943	$89	($204)	$828

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

[2] Includes allocation of holding gain (loss) from DAC, URR and future policy benefits of ($168) million, $615 million and ($617) million for the years ended December 31, 2016, 2015 and 2014, respectively.

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:	2016	2015	2014
	Years Ended December 31, (In Millions)		
Unrealized (gain) loss on securities available for sale, net:			
Sale of securities available for sale	($103) [1]	($43) [1]	($49) [1]
OTTI recognized on securities available for sale	34 [2]	81 [2]	11 [2]
Total unrealized (gain) loss on securities available for sale, net	(69)	38	(38)
(Gain) loss on derivatives:			
Foreign currency and interest rate swaps	(2) [1]		3 [1]
	(2) [3]	(3) [3]	(3) [3]
	2 [4]	2 [4]	6 [4]
	1 [5]		
Total (gain) loss on derivatives	(1)	(1)	6
Gain on other, net:			
Sale of non-marketable securities		(48) [1]	
Total gain on other, net	-	(48)	-
Total amounts reclassified from AOCI	($70)	($11)	($32)

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
[5] Operating and other expenses

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 $846 million and $795 million as of December 31, 2016 and 2015, respectively. Reinsurance payables, included in other liabilities, were $199 million and $241 million as of December 31, 2016 and 2015, respectively.

The components of insurance premiums are as follows:

	2016	2015	2014
	Years Ended December 31, (In Millions)		
Direct premiums	$1,213	$1,018	$1,035
Reinsurance assumed	1,570	1,453	1,139
Reinsurance ceded	(398)	(394)	(381)
Insurance premiums	$2,385	$2,077	$1,793

15. INCOME TAXES

The provision for income taxes is as follows:

	Years Ended December 31,		
	2016	2015	2014
	(In Millions)		
Current:			
Domestic	$68	$46	$39
Foreign	34	3	30
Total current	102	49	69
Deferred:			
Domestic	147	125	51
Foreign	(17)	7	(21)
Total deferred	130	132	30
Provision for income taxes	$232	$181	$99

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

	Years Ended December 31,		
	2016	2015	2014
	(In Millions)		
Provision for income taxes at the statutory rate	$378	$293	$222
Separate account dividends received deduction	(107)	(84)	(83)
LIHTC and foreign tax credits	(22)	(20)	(15)
Tax differential on foreign earnings	(4)	(5)	(9)
Singapore Transfer		(14)	(22)
Other	(13)	11	6
Provision for income taxes	$232	$181	$99

ACG transferred aircraft assets and related liabilities to foreign subsidiaries in Singapore (collectively referred to as the Singapore Transfer). The Singapore Transfer decreased 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 and 2014, as of December 31, 2016, the Company has not made a provision for U.S. or additional foreign withholding taxes of approximately $7 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.

During 2015, 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 aircraft depreciation. The Company filed an application for an automatic change in the method of accounting with the Internal Revenue Service (IRS) in 2016 which eliminated the contingency upon filing. None of the uncertain tax position affects the effective tax rate.

During 2016, the Company identified a liability for uncertain tax positions of $52 million for a tax position for which there is uncertainty about the timing, but not the ultimate deductibility, of tax deductions relating to aircraft maintenance reserves. The Company plans to file an application for a permitted change in method of accounting with the IRS in 2017 to remediate this contingency upon IRS approval. 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 the Codification, 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, 2015	$ -
Gross increase - prior year positions	58
Balance as of December 31, 2015	58
Additions - prior year positions	52
Deletions - current year positions	(58)
Balance as of December 31, 2016	$52

During the years ended December 31, 2016, 2015 and 2014, 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,	
	2016	2015
	(In Millions)	
Deferred tax assets:		
Policyholder reserves	$853	$678
Investment valuation	477	535
Tax credit carryforwards	386	390
Tax net operating loss carryforwards	241	443
Deferred compensation	81	77
Other	68	101
Total deferred tax assets	2,106	2,224
Deferred tax liabilities:		
DAC	(1,190)	(1,227)
Depreciation	(957)	(932)
Hedging	(493)	(449)
Partnership income	(95)	(115)
Total deferred tax liabilities	(2,735)	(2,723)
Net deferred tax liability	(629)	(499)
Unrealized gain on derivatives and securities available for sale	(512)	(387)
Other adjustments	30	26
Net deferred tax liability	($1,111)	($860)

The tax credit carryforwards relate to LIHTC, foreign tax credits, and alternative minimum tax (AMT) credits generated from 2000 to 2014. LIHTC carryforwards of $105 million expire between 2020 and 2025. AMT credits of $186 million possess no expiration date. The remainder will expire between 2026 and 2034.

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 2006 through 2007 with a ten-year carryforward and 2008 through 2014 with a 20-year carryforward.

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.

The Company files income tax returns in U.S. Federal and various state jurisdictions. The Company is under continuous audit by the IRS and is audited periodically by some state taxing authorities. The IRS has completed audits of the Company's tax returns through the tax year ended December 31, 2008, and is auditing the Company's tax returns for the tax years ended December 31, 2009 through 2014. 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 provides reinsurance to insurance and annuity providers in the UK, Ireland and Australia and to insurers in select markets in Asia. The Reinsurance segment also 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, 2016 and 2015, the Company had foreign investments with an estimated fair value of $13.0 billion and $11.9 billion, respectively. Aircraft leased to foreign customers were $6.9 billion and $7.1 billion as of December 31, 2016 and 2015, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the years ended December 31, 2016, 2015 and 2014.

The following is segment information as of and for the year ended December 31, 2016:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
REVENUES			*(In Millions)*			
Policy fees and insurance premiums	$1,196	$1,973		$1,506		$4,675
Net investment income	1,146	1,273	$3	88	$141	2,651
Net realized investment gain (loss)		(61)	(4)	80	164	179
OTTI	(18)	(8)			(16)	(42)
Investment advisory fees	25	274			6	305
Aircraft leasing revenue			1,018			1,018
Other income	32	209	48	93	1	383
Total revenues	2,381	3,660	1,065	1,767	296	9,169
BENEFITS AND EXPENSES						
Policy benefits	729	1,597		1,309		3,635
Interest credited	878	420			11	1,309
Commission expenses	294	652		58		1,004
Operating expenses	388	469	274	106	113	1,350
Depreciation of aircraft			331			331
Interest expense	10		233		218	461
Total benefits and expenses	2,299	3,138	838	1,473	342	8,090
Income (loss) before provision (benefit) for income taxes	82	522	227	294	(46)	1,079
Provision (benefit) for income taxes	9	66	89	97	(29)	232
Net income (loss)	73	456	138	197	(17)	847
Less: net (income) loss attributable to noncontrolling interests				3	(26)	(23)
Net income (loss) attributable to the Company	$73	$456	$138	$200	($43)	$824
Total assets	$40,733	$83,993	$9,070	$3,682	$5,820	$143,298
DAC	1,393	3,136		264		4,793
Separate account assets	7,313	50,113				57,426
Policyholder and contract liabilities	30,288	28,550		1,981	243	61,062
Separate account liabilities	7,313	50,113				57,426

The following is segment information 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	$1,771		$1,384		$4,361
Net investment income	1,133	1,206	$1	83	$200	2,623
Net realized investment gain (loss)	17	199	1	18	75	310
OTTI	(58)	(27)			(11)	(96)
Investment advisory fees	27	308			30	365
Aircraft leasing revenue			833			833
Other income	21	207	23	3	(8)	246
Total revenues	2,346	3,664	858	1,488	286	8,642
BENEFITS AND EXPENSES						
Policy benefits	667	1,407		1,250		3,324
Interest credited	852	386			15	1,253
Commission expenses	345	853		53		1,251
Operating expenses	356	469	141	90	135	1,191
Depreciation of aircraft			342			342
Interest expense	7		231		205	443
Total benefits and expenses	2,227	3,115	714	1,393	355	7,804
Income (loss) before provision (benefit) for income taxes	119	549	144	95	(69)	838
Provision (benefit) for income taxes	30	101	37	30	(17)	181
Net income (loss)	89	448	107	65	(52)	657
Less: net loss attributable to noncontrolling interests				2	2	4
Net income (loss) attributable to the Company	$89	$448	$107	$67	($50)	$661
Total assets	$38,504	$80,423	$9,267	$3,235	$5,755	$137,184
DAC	1,462	3,276		276		5,014
Separate account assets	6,978	49,996				56,974
Policyholder and contract liabilities	28,718	25,434		1,896	295	56,343
Separate account liabilities	6,978	49,996				56,974

The following is segment information 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	$1,797		$1,067		$3,797
Net investment income	1,084	1,080	$1	75	$236	2,476
Net realized investment gain (loss)	12	(648)		6	17	(613)
OTTI	(4)	(8)		(2)	(12)	(26)
Investment advisory fees	27	320			41	388
Aircraft leasing revenue			796			796
Other income	20	204	24	4	3	255
Total revenues	2,072	2,745	821	1,150	285	7,073
BENEFITS AND EXPENSES						
Policy benefits	600	1,437		900		2,937
Interest credited	803	350			54	1,207
Commission expenses	212	184		48		444
Operating expenses	327	445	137	75	115	1,099
Depreciation of aircraft			336			336
Interest expense	6		244		165	415
Total benefits and expenses	1,948	2,416	717	1,023	334	6,438
Income (loss) before provision (benefit) for income taxes	124	329	104	127	(49)	635
Provision (benefit) for income taxes	33	42	12	38	(26)	99
Net income (loss)	91	287	92	89	(23)	536
Less: net (income) loss attributable to noncontrolling interests			(2)	1	5	4
Net income (loss) attributable to the Company	$91	$287	$90	$90	($18)	$540

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 $339 million, $378 million and $395 million for the years ended December 31, 2016, 2015 and 2014, respectively. In addition, Pacific Life and PLFA provide certain support services to the Pacific Select Fund and the Pacific Funds Series Trust based on an allocation of actual costs. These fees amounted to $6 million, $5 million and $6 million for the years ended December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, PSD received $115 million, $130 million and $136 million, respectively, in service and other fees from the Pacific Select Fund and Pacific Funds Series Trust, which are recorded in other income.

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
2017	$578	$242	$327	$1,147
2018 through 2019	732	254		986
2020 through 2021	143	168		311
2022 and thereafter		102	2	104
Total	$1,453	$766	$329	$2,548

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 $14 million, $13 million and $11 million for the years ended December 31, 2016, 2015 and 2014, respectively. Aggregate minimum future office lease commitments are as follows *(In Millions)*:

Years Ending December 31:	
2017	$16
2018 through 2021	47
2022 and thereafter	9
Total	$72

As of December 31, 2016, ACG had commitments to purchase aircraft scheduled for delivery through 2022. 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, 2016, the aggregate estimated total remaining payments (including adjustments for certain contractual escalation provisions) are due as follows (*In Millions*):

Years Ending December 31:	
2017	$1,160
2018	1,516
2019	1,645
2020	1,529
2021	1,420
Thereafter	85
Total	$7,355

As of December 31, 2016, deposits related to these agreements totaled $499 million and are included in other assets.

Pacific LifeCorp provides a guarantee for the performance of certain obligations of PLR and Pacific Life Re (Australia) Pty Limited (PLRA), a wholly owned indirect subsidiary of Pacific LifeCorp. As stated in the guarantee agreements, if PLR or PLRA are unable to meet their current obligations under reinsurance agreements, Pacific LifeCorp shall guarantee payment on any past, present and future obligations of PLR or PLRA. Pacific Life also has an agreement with PLR and PLRA to guarantee the performance of reinsurance obligations of PLR and PLRA. These guarantees are secondary to the guarantee 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 Pacific Life Reinsurance Company II Limited (PLRC), an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific Life, 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.

Pacific LifeCorp has a commitment to provide up to 100 million pound sterling of capital to PLR. The commitment is funded upon notification to Pacific LifeCorp by PLR's board of directors, which can demand the funds in any increment, up to the 100 million pound sterling limit. Related to this commitment, Pacific Life has agreed to guarantee payment to PLR in the event of Pacific LifeCorp's nonperformance. 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.

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 6 for discussion of contingencies related to restricted reinsurance trusts.

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

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