SEMI-ANNUAL REPORT

Pacific Life Funding, LLC

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

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

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

Unless otherwise specified, the financial information contained in this Semi-annual Report (1) has been prepared in accordance with accounting principles generally accepted in the United States of America ("**GAAP**"), and (2) is derived from the Company's audited GAAP consolidated financial statements, including the notes thereto, as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 (the "**Audited GAAP Financial Statements**"), and the Company's unaudited GAAP condensed consolidated financial statements, including the notes thereto, as of June 30, 2016 and for the six months ended June 30, 2016 and 2015 (the "**Unaudited Quarterly GAAP Financial Statements**").

Dated: August 31, 2016

INTERIM MANAGEMENT REPORT

PACIFIC LIFE FUNDING, LLC

Background

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

The only business activity of PLF is to issue debt instruments and to purchase funding agreements from Pacific Life. The indentures governing the terms of the instruments issued by PLF prohibit PLF from engaging in any other business activity. PLF has not issued any instruments or purchased any funding agreements since 2005. Between its organization in 1998 and 2005, PLF issued $5,813 million in aggregate principal amount of instruments, of which $108 million aggregate principal amount remained outstanding as of June 30, 2016. PLF issued these instruments in a variety of currencies and with maturities that varied from one to 20 years both to institutional investors in a variety of jurisdictions and to retail investors in the United Kingdom, The Netherlands, Germany and Switzerland.

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

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

Management

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

Capitalization

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

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

The following table presents PLF's capitalization as of June 30, 2016 prepared in conformity with GAAP. The information as of June 30, 2016 in this table is derived from the unaudited GAAP condensed financial statements of PLF as of June 30, 2016 and for the six months ended June 30, 2016 and 2015.

	June 30, 2016
Debt:	
Debt	$ 108,301,553
Total debt	108,301,553
Equity:	
Share capital	1,000
Retained earnings	24,802
Total equity	25,802
Total capitalization	$ 108,327,355

Development of PLF's Business

Other than as described herein, there were no developments having a material effect on PLF or its business during the six months ended June 30, 2016. In addition, other than as described herein, there have been no recent developments having a material effect on PLF or its business since June 30, 2016. As of the date of this Semi-annual Report, there exists no condition or event that would constitute an event of default under the terms of the instruments issued by PLF that are currently outstanding.

There are currently no indications that the business of PLF will change between the date of this report and December 31, 2016.

STATEMENT OF RESPONSIBILITY

Pacific Life Funding, LLC

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

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

- this Semi-annual Report constitutes a review by PLF's management of the business and position of PLF during the six months ended June 30, 2016, and contains a fair review of that period.

Dated: August 31, 2016

/s/ SUZAN MERREN
Suzan Merren
Director

/s/ RACHEL FISHER
Rachel Fisher
Director

PACIFIC LIFE INSURANCE COMPANY

Selected Consolidated GAAP Financial Information of the Company

The following tables set forth selected consolidated GAAP financial information for the Company. You should read them in conjunction with the sections of the Semi-annual Report that follow, the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2016, and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from such estimates. Additionally, the results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

The selected consolidated GAAP financial information for the Company as of June 30, 2016 (other than "life insurance in force" and "employees" included in "Other Data") and for the six months ended June 30, 2016 and 2015 has been derived from the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

In February 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 unaudited consolidated statements of financial condition. Other assets and debt as of December 31, 2015, 2014 and 2013 have decreased by $84 million, $98 million and $118 million, respectively, to reflect the change in presentation of debt issuance costs.

	Six Months Ended June 30,		Years Ended December 31,		
	2016	2015	2015	2014	2013
			(in millions)		
Unaudited Consolidated Statements of Operations:					
Revenues:					
Policy fees and insurance premiums	$1,947	$1,745	$4,179	$3,414	$3,365
Net investment income	1,267	1,296	2,557	2,408	2,290
Net realized investment gain (loss)	(437)	428	234	(597)	586
Other than temporary impairments	(19)	(19)	(96)	(24)	(27)
Investment advisory fees	145	184	353	376	351
Aircraft leasing revenue	436	408	833	796	736
Other income	161	132	260	259	253
Total revenues	3,500	4,174	8,320	6,632	7,554
Benefits and Expenses:					
Policy benefits paid or provided	1,469	1,302	3,249	2,650	2,366
Interest credited to policyholder account balances	643	612	1,250	1,203	1,248
Commission expenses	186	866	1,200	398	1,354
Operating and other expenses	952	933	1,870	1,759	1,784
Total benefits and expenses	3,250	3,713	7,569	6,010	6,752
Income before provision for income taxes	250	461	751	622	802
Provision for income taxes	40	100	149	102	131
Net income	210	361	602	520	671
Less: net (income) loss attributable to noncontrolling interests	(4)	1	2	3	(19)
Net income attributable to the Company	$ 206	$ 362	$ 604	$ 523	$ 652

	June 30, 2016	December 31, 2015	2014	2013
		($ in millions)		
Unaudited Consolidated Statements of Financial Condition:				
Assets:				
Investments	$ 65,166	$ 59,796	$ 54,822	$ 49,860
Cash and cash equivalents	1,350	1,845	3,220	2,000
Restricted cash	172	265	266	314
Deferred policy acquisition costs	4,654	4,719	4,742	4,214
Aircraft, net	8,135	8,307	7,817	7,296
Other assets	3,347	3,145	2,887	2,999
Separate account assets	56,526	56,974	60,625	60,864
Total assets	$ 139,350	$ 135,051	$ 134,379	$ 127,547
Liabilities and Equity:				
Liabilities:				
Policyholder account balances	$ 42,999	$ 41,359	$ 39,169	$ 36,751
Future policy benefits	15,448	14,088	13,200	10,444
Debt	9,308	9,506	8,233	7,708
Other liabilities	4,084	3,438	3,410	2,932
Separate account liabilities	56,526	56,974	60,625	60,864
Total liabilities	128,365	125,365	124,637	118,699
Equity:				
Common stock	30	30	30	30
Paid-in capital	1,012	1,012	982	982
Retained earnings	8,074	7,868	7,264	6,941
Accumulated other comprehensive income	1,758	688	1,362	858
Total stockholder's equity	10,874	9,598	9,638	8,811
Noncontrolling interests	111	88	104	37
Total equity	10,985	9,686	9,742	8,848
Total liabilities and equity	$ 139,350	$ 135,051	$ 134,379	$ 127,547
Other Data:				
Life insurance in force	$ 486,327	$ 489,365	$ 497,607	$ 299,256
Employees	3,121	3,033	2,937	2,743

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

The following should be read in conjunction with the Selected Consolidated GAAP Financial Information of the Company set forth above and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report and the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2016.

Background

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

The Company's primary business operations consist of life insurance, annuities, mutual funds, aircraft leasing and reinsurance. As of June 30, 2016 and December 31, 2015 and 2014, the Company had $139.4 billion, $135.1 billion and $134.4 billion, respectively, in total assets, and total stockholder's equity of $10.9 billion, $9.6 billion and $9.6 billion, respectively. Life insurance in force was $486.3 billion, $489.4 billion and $497.6 billion as of June 30, 2016 and December 31, 2015 and 2014, respectively. Net income attributable to the Company was $206 million for the six months ended June 30, 2016 (the "**2016 Period**"), as compared to $362 million for the six months ended June 30, 2015 (the "**2015 Period**"), and $604 million for the year ended December 31, 2015 as compared to $523 million for the year ended December 31, 2014.

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

Segments

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

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in primarily the upper income and corporate markets. Principal products include universal life, indexed universal life, variable universal life, survivor life, interest sensitive whole life, corporate-owned life insurance and traditional products such as whole life and term life. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial, an association of independently owned and operated insurance and financial producers. As of June 30, 2016 and December 31, 2015, the Life Insurance segment represented 29% of the Company's total assets.

The Retirement Solutions segment's principal products include variable and fixed annuity products, mutual funds, and structured settlement annuities and group retirement annuities, which are offered through multiple distribution sources. Distribution channels include independent planners, financial institutions, national/regional wirehouses and a network of structured settlement brokers. As of June 30, 2016 and December 31, 2015, this segment represented 60% of the Company's total assets.

The Aircraft Leasing segment encompasses the operations of Aviation Capital Group Corp. ("**ACG**"), a wholly owned subsidiary of Pacific Life. ACG is an aircraft asset manager that deploys its operating lease platform to provide fleet strategy solutions to airlines and asset management services to financial investors worldwide. As of June 30, 2016, ACG's portfolio included 265 owned and managed aircraft. As of June 30, 2016 and December 31, 2015, the Aircraft Leasing segment represented 7% of the Company's total assets.

The Reinsurance segment primarily includes the domestic life portion of the Company's retrocession business (which is referred to as "**PL Retro**") and international reinsurance the Company has assumed from Pacific Life Re Limited ("**PLRL**"), a wholly owned subsidiary of Pacific LifeCorp incorporated in the United Kingdom. PL Retro assumes mortality risks from other life reinsurers, with a small amount of morbidity risk as part of larger treaties. PL Retro serves clients primarily in the U.S., Canada and Europe. PLRL provides reinsurance products and services to insurance and annuity providers in the United Kingdom, Ireland, Australia, and, through its Singapore branch, to insurers in selected Asian markets. As of June 30, 2016 and December 31, 2015, the Reinsurance segment represented 1% of the Company's total assets.

The Corporate and Other segment consists of all other assets, liabilities and activities not allocated to any other segment. The Corporate and Other segment provides various corporate administrative and investment management services on behalf of the other business segments, the majority of which are allocated to the segments at cost. Additionally, the Corporate and Other segment manages the surplus assets of the Company, issues long-term and short-term debt, engages in entity level hedging activities and manages the Company's institutional investment products in addition to other Corporate activities. As of June 30, 2016 and December 31, 2015, the Corporate and Other segment represented 3% of the Company's total assets.

Principal Subsidiaries and Affiliates

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

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

Pacific Select Distributors, LLC ("**PSD**") is a registered broker-dealer and a wholly owned subsidiary of Pacific Life that serves as the underwriter and wholesale distributor of the Company's registered investment-related products and services, principally variable life and annuity contracts and retail mutual funds. The Pacific Select Fund, an investment vehicle provided to Pacific Life's variable life insurance policyholders and variable annuity contract owners, pays PSD, as distributor of the fund, a service fee in connection with services rendered or procured to or for shareholders of the fund or its variable contract owners. These services may include, but are not limited to, payment of compensation to broker-dealers, including PSD itself, and other financial institutions and organizations that assist in providing any of the services.

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

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

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

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

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

Pacific Life cedes certain statutory reserves to affiliated special purpose financial insurance companies and affiliated captive reinsurance companies that are supported by a combination of cash, invested and other assets and third-party letters of credit or note facilities. As of June 30, 2016, Pacific Life's total statutory reserve credit was $1,955 million, of which $1,284 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.

Revenues and Expenses

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

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

Results of Operations

Six Months Ended June 30, 2016 compared to the Six Months Ended June 30, 2015

Net income attributable to the Company was $206 million for the 2016 Period as compared to $362 million for the 2015 Period. The decrease in net income attributable to the Company was primarily the result of net variable annuity rider losses in the 2016 Period due to lower interest rates and lower prepayment income partially offset by net investment gains in the Retirement Solutions segment. Also contributing to the decrease in net income attributable to the Company was lower earnings in the surplus portfolio in the Corporate and Other segment as well as lower prepayment income in the Life Insurance segment in the 2016 Period as compared to the 2015 Period. These decreases in net income attributable to the Company were partially offset by improved mortality experience in the Reinsurance segment during the 2016 Period. See the discussion of the condensed consolidated statement of operations line items below.

Policy fees and insurance premiums increased $202 million for the 2016 Period to $1,947 million as compared to $1,745 million for the 2015 Period. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This increase was primarily due to higher sales of retail fixed, pension risk transfer and structured settlement annuities in the Retirement Solution segment.

Net investment income decreased from $1,296 million in the 2015 Period to $1,267 million in the 2016 Period. The decrease in the 2016 Period as compared to the 2015 Period was primarily due to mortgage loan prepayment income of $85 million in the 2015 Period as compared to the 2016 Period and a decrease in private equity returns, mostly offset by increased fixed maturity securities that generated higher investment income.

Net realized investment loss for the 2016 Period amounted to $437 million compared to a net realized investment gain of $428 million for the 2015 Period. The primary reason for the change to net realized investment gain (loss) was the net losses from certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of reinsurance, hedges and rider policy fees primarily due to lower interest rates during the 2016 Period as compared to net gains during the 2015 Period. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of net realized investment gain (loss).

Other than temporary impairment ("**OTTI**") losses remained constant at $19 million in the 2016 Period and 2015 Period mainly due to impairments from emerging markets and energy sector bonds in the 2016 Period and 2015 Period. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of OTTI.

Investment advisory fees decreased $39 million to $145 million in the 2016 Period from $184 million in the 2015 Period due to lower average separate account assets under management in the Retirement Solutions segment and the sale of the Pacific Global Advisors LLC ("**PGA**") business in the 2015 Period in the Corporate and Other segment.

Aircraft leasing revenue increased $28 million to $436 million in the 2016 Period from $408 million in the 2015 Period. This increase was primarily the result of the net addition of aircraft to the consolidated portfolio.

Other income was $161 million in the 2016 Period as compared to $132 million in the 2015 Period. The primary reason for the increase in other income was increased revenue in the Aircraft Leasing segment due to higher gains on the sale of aircraft in the 2016 Period as compared to the 2015 Period.

Policy benefits paid or provided increased $167 million to $1,469 million for the 2016 Period from $1,302 million for the 2015 Period. The Retirement Solutions segment experienced increases in policy benefits paid or provided due to higher year over year reserve increases driven by higher sales of retail fixed, pension risk transfer and structured settlement annuities. The increases in policy benefits paid or provided was partially offset by improved mortality experience in the Reinsurance segment in the 2016 Period as compared to the 2015 Period.

Interest credited to policyholder account balances increased to $643 million for the 2016 Period from $612 million for the 2015 Period. This increase of $31 million was primarily attributable to an increase in the average fixed account annuity reserves driven by positive net cash flows on retail fixed, pension risk transfer and structured settlement annuities in the Retirement Solutions segment. Also contributing to the increase was higher policyholder account values in the Life Insurance segment.

Commission expenses for the 2016 Period decreased $680 million to $186 million compared to $866 million in the 2015 Period. Commission expenses include components of deferred policy acquisition costs ("**DAC**") and vary with the level of sales by business segment due to the mix of products, as well as the change in the embedded derivative, net of hedges, reinsurance and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The decrease in commission expenses was primarily due to lower DAC amortization primarily from net variable annuity rider losses due to lower interest rates.

Operating and other expenses for the 2016 Period increased by $19 million to $952 million as compared to $933 million in the 2015 Period. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The Life Insurance segment experienced increases in the 2016 Period due to increased compensation expenses. The Aircraft Leasing segment experienced an increase in operating expenses primarily due to increased aircraft impairment charges and an increase in interest expense due to a higher average debt balance. These increases were partially offset by decreases in the Retirement Solutions segment due to lower DAC amortization related to losses from lower interest rates on the variable annuity guarantees in the 2016 Period. Operating and other expense increases in the 2016 Period were also partially offset by the one-time expenses incurred in the 2015 Period in the Corporate and Other segment that resulted from the sale of PGA in the 2015 Period.

The provision for income taxes for the 2016 Period amounted to $40 million compared to $100 million for the 2015 Period due to lower pretax income. The taxes in the 2016 Period and in the 2015 Period were lower than the statutory rate primarily due to the separate account dividends received deductions, other tax credits, and the reduction of Aircraft Leasing segment deferred tax liabilities.

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

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

Policy fees and insurance premiums increased $765 million for 2015 to $4,179 million as compared to $3,414 million for 2014. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This increase was primarily due to growth in the Reinsurance segment from the acquisition of a large block of reinsured in force individual life insurance from Reinsurance Group of America in December 2014 ("**RGA Transaction**") and also increases in higher unearned revenue reserve amortization due to the impact from 2014 assumption changes on certain in force blocks in the Life Insurance segment. These increases were partially offset by a decrease in variable annuity assets as a result of the low interest rate environment in the Retirement Solutions segment.

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

Net realized investment gain for 2015 amounted to $234 million compared to a net realized investment loss of $597 million for 2014. The primary reason for the change in net realized investment gain (loss) was the net gains related to variable annuity guaranteed living benefits in the Retirement Solutions segment (valuation of embedded derivatives, net of reinsurance, hedges and rider policy fees), primarily due to widening credit spreads, as compared to net losses in 2014 that were primarily due to large decreases in interest rates. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2016 for additional information on the components of net realized investment gain (loss).

OTTI losses increased to $96 million in 2015 as compared to $24 million in 2014 primarily due to losses within emerging markets and energy sector bonds. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2016 for additional information on the components of OTTI.

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

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

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

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

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

Commission expenses for 2015 increased $802 million to $1,200 million compared to $398 million in 2014. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products, as well as the change in the embedded derivative (net of reinsurance, hedges and policy fees), related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The increase in commission expenses was primarily due to an increase in DAC amortization from lower variable annuity losses in the Retirement Solutions segment and to changes in actuarial assumptions and models. The Life Insurance segment also contributed to part of the increase in commission expenses due to increased DAC amortization as a result of changes in actuarial assumptions and models.

Operating and other expenses for 2015 increased by $111 million to $1,870 million as compared to $1,759 million in 2014. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. Operating and other expenses increased in the Retirement Solutions segment due to increased DAC amortization in 2015. The Life Insurance segment had operating and other expense increases in 2015 due to an increase in compensation, higher information technology costs and the impact of changes in DAC. Operating and other expenses in the Corporate and Other segment increased primarily due to higher accrued compensation benefits, higher mark-to-market on corporate life insurance policies and higher interest expense in 2015 due to two new commercial mortgage-backed security ("**CMBS**") variable interest entities ("**VIE**").

The provision for income taxes for 2015 amounted to $149 million compared to $102 million for 2014. This increase in tax expense was primarily due to higher pretax income in 2015. The taxes in 2015 and 2014 were lower than the statutory rate primarily due to the separate account dividends received deductions, other tax credits, and the reduction of Aircraft Leasing segment deferred tax liabilities.

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

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

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

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

Net realized investment loss for 2014 amounted to $597 million compared to a net realized investment gain of $586 million for 2013. Net realized investment losses in 2014 were the result of mark-to-market losses related to variable annuity guaranteed living benefits in the Retirement Solutions segment (valuation of embedded derivatives, net of reinsurance, hedges and rider policy fees), primarily due to lower interest rates during 2014 as compared to net gains in the prior year from higher interest rates during 2013. These losses were partially offset by lower losses in 2014 from the Company's macro hedge program, as all equity put option and interest rate macro hedges were terminated in 2014 in the

Corporate and Other segment and the impact of mark-to-market gains from a portfolio of fair value options securities purchased in 2014 by the Retirement Solutions segment. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2016 for additional information on the components of net realized investment gain (loss).

OTTI losses amounted to $24 million in 2014 as compared to $27 million in 2013 mainly due to lower credit losses as a result of the Company's investment portfolio and improved investment performance. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2016 for additional information on the components of OTTI.

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

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

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

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

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

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

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

The provision for income taxes for 2014 amounted to $102 million compared to $131 million for 2013. This decrease in tax expense was primarily due to lower pretax income in 2014. The taxes in 2014 and in 2013 were lower than the statutory rate primarily due to the separate account dividends received deductions, other tax credits, and the reduction of Aircraft Leasing segment deferred tax liabilities.

Assets

As of June 30, 2016, the Company had total assets of $139.4 billion as compared to $135.1 billion as of December 31, 2015. The increase in total assets was the result of a $5.4 million increase in total investments from December 31, 2015 to June 30, 2016. This increase in total assets was partially offset by a decrease of $0.5 billion in cash and cash equivalents and a decrease in separate account assets of $0.4 billion from December 31, 2015 to June 30, 2016. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2015, the Company had total assets of $135.1 billion as compared to $134.4 billion as of December 31, 2014. The Company had an increase in total investments of $5.0 billion and aircraft, net of $0.5 billion, which contributed to the increase in total assets from December 31, 2014 to December 31, 2015. These increases were partially offset by a decrease in cash and cash equivalents of $1.4 billion and a decrease of $3.7 billion in separate account assets from December 31, 2014 to December 31, 2015. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2016 for additional information on investments.

As of December 31, 2014, the Company had total assets of $134.4 billion as compared to $127.5 billion as of December 31, 2013. The Company had an increase in total investments of $5.0 billion, cash and cash equivalents of $1.2 billion, DAC of $0.5 billion, and aircraft, net of $0.5 billion, which contributed to the increase in total assets from December 31, 2013 to December 31, 2014. These increases were partially offset by a decrease of $0.2 billion in separate account assets, and a decrease of $0.1 billion in other assets from December 31, 2013 to December 31, 2014.

Liabilities

As of June 30, 2016, the Company had total liabilities of $128.4 billion as compared to $125.4 billion as of December 31, 2015. This increase in total liabilities was the result of an increase in policyholder account balances of $1.6 billion, an increase of $1.4 billion to future policy benefits and an increase of $0.6 billion to other liabilities from December 31, 2015 to June 30, 2016. These increases were partially offset by a decrease of $0.4 billion in separate account liabilities and a $0.2 billion decrease in debt. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2015, the Company had total liabilities of $125.4 billion as compared to $124.6 billion as of December 31, 2014. This increase in total liabilities was due to an increase in policyholder account balances of $2.2 billion, future policy benefits of $0.9 billion, and debt of $1.3 billion from December 31, 2014 to December 31, 2015. These increases were partially offset by a decrease of $3.7 billion in separate account liabilities. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2015 for additional information on liabilities.

As of December 31, 2014, the Company had total liabilities of $124.6 billion as compared to $118.7 billion as of December 31, 2013. This increase in total liabilities was due to an increase in policyholder account balances of $2.4 billion, future policy benefits of $2.8 billion, debt of $0.5 billion and other liabilities of $0.5 billion from December 31, 2013 to December 31, 2014. These increases were partially offset by a decrease of $0.2 billion in separate account liabilities.

Liquidity and Capital Resources

The Company's principal capital resources come from insurance premiums, deposits to policyholder account balances, investment income, sales, maturities, calls and principal repayments of investments and cash flows from other operations, including aircraft leasing revenue. The principal uses of these funds are investment purchases, payment of policy acquisition costs, payment of policyholder benefits, withdrawal of policyholder account balances, income taxes and current operating expenses. Remaining funds not used as noted above are generally used to increase the asset base, to provide funds to meet the need for future policy benefit payments and for writing new business. As described below, total cash and cash equivalents decreased $495 million during the 2016 Period as compared to a decrease of $624 million during the 2015 Period and decreased $1.4 billion during 2015 as compared to an increase of $1.2 billion during 2014 and a decrease of $256 million during 2013.

Net cash provided by operating activities was $1,605 million during the 2016 Period as compared to $1,705 million in the 2015 Period, and was $4,135 million during 2015, $3,833 million during 2014 and $3,478 million during 2013. Net cash provided by operating activities can vary depending on the level and type of sales, particularly those of annuity and other investment-type products. For example, sales of universal life insurance products and investment-type products result in cash flows that are predominantly shown as cash flows from financing activities rather than as cash flows from operations, while sales of variable products result in cash flows that are predominantly reflected in the separate accounts and are not a part of the cash flow statement.

Net cash used in investing activities was $2,955 million during the 2016 Period as compared to $2,925 million during the 2015 Period, and was $7,777 million during 2015, $3,965 million during 2014 and $3,917 million during 2013. Net cash used in investing activities in the 2016 Period was nearly consistent with the 2015 Period. During the 2016 Period, the Company had higher proceeds from sale of aircraft compared to the 2015 Period, this was offset by higher fundings of mortgage loans, real estate and a CMBS VIE mortgage loan in the 2015 Period compared to the 2016 Period. Net cash used in investing activities was higher in 2015 as compared to 2014 primarily due to higher purchases and lower sales of fixed maturity and equity securities in 2015 as compared to 2014, and higher fundings of mortgage loans, real estate and CMBS VIE mortgage loans in 2015 as compared to 2014. Net cash used in investing activities was slightly higher in 2014 as compared to 2013 primarily due to purchases of fair value option securities, fundings of CMBS VIE mortgage loans and no proceeds from the sale of real estate in 2014, partially offset by lower purchases and higher sales of fixed maturity and equity securities, and higher repayments of mortgage loans. It is the Company's objective to remain fully invested in assets with maturities and yields that it believes are matched to its product liabilities. As assets mature, are redeemed or are sold, the Company evaluates the available investment alternatives, reinvests according to existing and expected product liabilities and seeks to ensure that sufficient marketable assets and other sources of liquidity are in place to provide for large unexpected demands for cash. Discrepancies between the timing of financial statement preparation and the timing of reinvestment activity sometimes result in the presentation of levels of short-term investments that are not typical of day-to-day operations. These short-term investments are considered cash equivalents.

Net cash provided by financing activities was $855 million during the 2016 Period as compared to $596 million during the 2015 Period, and was $2,267 million during 2015, $1,352 million during 2014 and $183 million in 2013. Net cash provided by financing activities in the 2016 Period was higher than the 2015 Period primarily due to higher deposits and lower withdrawals of policyholder account balances, slightly offset by the issuance of CMBS VIE debt in the 2015 Period. Net cash provided by financing activities in 2015 was higher than 2014 primarily due to the issuance of more long-term and CMBS VIE debt in 2015 as compared to 2014. The increase in net cash provided by financing activities in 2014 as compared to 2013 primarily related to the net change in short-term debt, issuance of CMBS VIE debt, and lower payments with respect to long-term debt and surplus notes.

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the insurance laws of the State of Nebraska. Under these laws, Pacific Life must deliver notice to the Nebraska Department of Insurance ("**NE DOI**") of any dividend or distribution to Pacific LifeCorp within five business days after declaration of the dividend or distribution, and may not pay the dividend or distribution to Pacific LifeCorp within the ten business day period following delivery of such notice unless the NE DOI approves payment of the dividend or distribution within such ten business day period. In addition, Pacific Life may not pay an “extraordinary” dividend or distribution to Pacific LifeCorp until the NE DOI has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. For purposes of applicable Nebraska law, an “extraordinary” dividend or distribution is a dividend or distribution of cash or other property with a fair market value that, together with that of other dividends or distributions made by Pacific Life to Pacific LifeCorp within the preceding twelve months, exceeds the greater of either (i) 10% of Pacific Life’s statutory policyholders surplus as of the preceding December 31 or (ii) Pacific Life’s statutory net gain from operations for the twelve month period ending the preceding December 31. Based on the 2015 statutory results, Pacific Life could pay $608 million in ordinary dividends or distributions during 2016, subject to the ten business day notice period described above. Dividends in excess of such amount would be considered “extraordinary” dividends or distributions for purposes of Nebraska law and would be subject to the thirty day notice and non-disapproval requirement described above. No dividends were paid during the 2016 Period and the 2015 Period. During 2015, 2014 and 2013, Pacific Life paid dividends to Pacific LifeCorp of zero, $200 million and $200 million, respectively.

Liquidity and Capital Sources and Requirements

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

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

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

	June 30, 2016		December 31, 2015	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment	$ 7,249	10%	$ 6,539	10%
At book value less current surrender charge of 5% or more	1,455	2%	1,192	2%
At fair value	46,332	67%	46,839	68%
Total with adjustment or at fair value	55,036	79%	54,570	80%
At book value without adjustment	4,849	7%	5,000	7%
Not subject to discretionary withdrawal	9,589	14%	9,206	13%
Total (gross)	69,474	100%	68,776	100%
Reinsurance ceded	47		170	
Total (net)	$ 69,427		$ 68,606	

As noted in the table above, as of June 30, 2016 and December 31, 2015, only 7% of these liabilities were subject to withdrawal at book value without adjustment. The other 93% of these liabilities as of June 30, 2016 and December 31, 2015 were either subject to withdrawal with an adjustment or at fair value or were not subject to discretionary withdrawal. The products are designed in this manner to discourage early withdrawals and protect Pacific Life from liquidity risks. Pacific Life believes the structuring of liabilities in this manner provides it with a stable block of liabilities that reduces its exposure to unexpected cash withdrawals and demands and the adverse financial effects that could occur as a result.

Pacific Life had $150 million of surplus notes outstanding as of June 30, 2016 and December 31, 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 had $621 million and $677 million of surplus notes outstanding as of June 30, 2016 and December 31, 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 the 9.25% surplus notes. The partial retirement of these surplus notes was accounted for as an extinguishment of debt and the related amortization of fair value hedge adjustments of $19 million and the premium paid of $24 million were recognized in interest expense during the six months ended June 30, 2016.

Pacific LifeCorp has $450 million of senior notes at a fixed interest rate of 6.0%, maturing on February 10, 2020. Interest is payable semiannually on February 10 and August 10. Pacific LifeCorp may redeem all or a portion of the notes at any time at the redemption price described under the terms of the senior notes. The NE DOI approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $450 million. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on February 5 and August 5 at a fixed annual rate of 6.0%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on February 5, 2020. The carrying amount outstanding as of June 30, 2016 and December 31, 2015 was $450 million.

Pacific LifeCorp has $500 million of senior notes at a fixed interest rate of 5.125%, maturing on January 30, 2043. Interest is payable semiannually on January 30 and July 30. Pacific LifeCorp may redeem all or a portion of the notes at any time at the redemption price described under the terms of the senior notes. The NE DOI approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $500 million with net cash proceeds of $494 million. The original issue discount of $6 million is being amortized over the life of this surplus note. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on January 25 and July 25 at a fixed annual rate of 5.125%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on January 25, 2043. Pacific Life used the proceeds from the issuance of this internal surplus note primarily for the repurchase of a portion of its 9.25% surplus notes discussed above. The carrying amount outstanding as of June 30, 2016 and December 31, 2015 was $494 million.

The Company's principal source of liquidity to meet unexpected cash outflows is its portfolio of liquid assets, which includes short-term money market investments and public bonds. As discussed in more detail above, as a matter of policy, the Company includes provisions in many of its products that reduce the likelihood of withdrawal. A substantial portion of its liabilities is not subject to surrender, or can be surrendered only after deduction of a charge or market value adjustment.

Additional sources of liquidity include facilities for short-term borrowing to meet working capital requirements. Pacific Life maintains a $700 million commercial paper program. There was $50 million, zero and zero of commercial paper debt outstanding as of June 30, 2016 and December 31, 2015 and 2014. In addition, a bank revolving credit facility totaling $400 million is also in place that serves as a back-up line of credit for the commercial paper program. The credit facility matures in May 2021. Interest is at variable rates. This facility had no debt outstanding as of June 30, 2016 and December 31, 2015 and 2014. As of June 30, 2016 and December 31, 2015 and 2014, and for the six months ended June 30, 2016 and years ended December 31, 2015 and 2014, Pacific Life was in compliance with its debt covenants related to this credit facility.

The Company maintains reverse repurchase lines of credit with various financial institutions. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with these reverse repurchase lines of credit as of June 30, 2016 and December 31, 2015 and 2014.

Pacific Life is a member of the Federal Home Loan Bank ("**FHLB**") of Topeka. Pacific Life is eligible to receive advances from the FHLB of Topeka based on a percentage of Pacific Life's statutory general account assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of Topeka requirements, debt covenant restrictions and insurance law and regulations. The Company had estimated available eligible collateral of $2.0 billion as of June 30, 2016. There was no debt outstanding with the FHLB of Topeka as of June 30, 2016 and December 31, 2015 and 2014.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to receive advances from the FHLB of San Francisco based on a percentage of PL&A's net admitted assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of San Francisco requirements and insurance law and regulations. PL&A had estimated available eligible collateral of $45 million as of June 30, 2016. As of June 30, 2016 and December 31, 2015 and 2014, PL&A had no debt outstanding with the FHLB of San Francisco.

Two key elements of ACG's financing strategy are its continued development of a diverse array of financing options and the issuance of debt with maturities appropriate for its long-lived aircraft assets and leases. ACG historically has had access, and expects to continue to have access, to multiple sources of financing, including bank financings, the asset-backed securities market, private debt placements in the unsecured debt market both domestically in the U.S. and in foreign markets such as Singapore and Japan, and debt guaranteed by Ex-Im Bank and the European ECAs. ACG has revolving credit agreements with banks for an aggregate of $1,720 million borrowing capacity. Interest on these loans is at variable rates, payable monthly. The facilities expire at various dates ranging from 2019 to 2020. There was $335 million, $485 million and $266 million outstanding in connection with ACG's revolving credit agreements as of June 30, 2016 and December 31, 2015 and 2014, respectively. These credit facilities are recourse only to ACG.

Dividends and Distributions from Subsidiaries

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

The payment of dividends and other distributions by PL&A to Pacific Life is subject to restrictions set forth in the insurance laws of the State of Arizona. These laws require that PL&A notify the Arizona Department of Insurance of the declaration of any dividend or distribution to be paid by PL&A to Pacific Life. PL&A may not pay an "extraordinary" dividend or distribution to Pacific Life until the Arizona Department of Insurance has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. For purposes of applicable Arizona law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property whose fair market value, together with that of other dividends or distributions made by PL&A to Pacific Life within the preceding twelve months, exceeds the lesser of either (i) 10% of PL&A's statutory policyholders surplus as of the preceding December 31 or (ii) PL&A's statutory net gain from operations for the twelve month period ending the preceding December 31. Based on this limitation and 2015 statutory results, PL&A could pay $39 million in dividends to Pacific Life in 2016 without prior regulatory approval. PL&A did not pay any dividends to Pacific Life during the 2016 Period and 2015 Period. During the years ended December 31, 2015, 2014 and 2013, PL&A paid dividends to Pacific Life of $37 million, $35 million and $35 million, respectively.

General

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

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

Prospects for the Remainder of 2016

The results for the six months ended June 30, 2016 are lower than the Company's forecasts primarily due to the lower interest rate environment. There can be no assurance that these results will be indicative of the Company's performance during the remaining six months of 2016 or for the entire fiscal year of 2016 and provide no guarantee of future performance where actual results may differ materially.

Even though the Company believes its investment portfolio is diversified, future stress in the financial markets and recessionary global economic conditions could impact the Company. Debt issuances in prior years may not be indicative of the Company's ability to access capital markets in the future.

Negative market conditions may limit the Company's ability to refinance existing credit facilities and access the capital necessary to grow the business. The Company's business, results of operations, financial condition, and cash flows could be materially adversely affected by future disruptions in the financial markets. Fluctuations in the fixed income or equity markets could result in investment losses that impact the Company's consolidated financial condition and results of operations through realized and unrealized losses.

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

Principal Risks and Uncertainties

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

- difficult economic conditions and volatility in the equity and credit markets and the global economy;

- changes in the valuation of and fluctuation in the mark-to-market value of variable annuity guaranteed minimum living benefit riders;

- changes in interest rates;

- changes in capital and credit market conditions, including the effectiveness of governmental and regulatory measures in the U.S. and elsewhere in stabilizing such markets;

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

- requirements to post collateral or make payments related to declines in value of specified assets, including in connection with declines in estimated fair value of fixed maturity securities, cash or cash equivalents posted as collateral under derivative contracts in the ordinary course of business, funding agreements and certain indebtedness;

- adverse legislative or regulatory developments;

- changes to the calculation of statutory reserves and impact of Regulation XXX and Actuarial Guidance 38;

- new accounting rules or changes to existing accounting rules;

- the NAIC's and regulators' increased focus on life insurers' use of captive reinsurance companies and the effect that changes in insurance laws may have in affecting the Company's use of captive reinsurance companies in the future;

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

- strong competition in the Company's business;

- changes in tax laws and the interpretation thereof;

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

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

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

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

- market capacity constraints on statutory reserve financings;

- litigation and regulatory investigations;

- lack of available, affordable or adequate reinsurance or retrocessional coverage;

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

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

- lower demand for ACG’s aircraft;

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

- the uncertain financial condition of aircraft and engine manufacturers;

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

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

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

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

- the inability to attract and retain key personnel;

- the occurrence of events that would require the acceleration of the amortization of DAC;

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

- exposure to unidentified or unanticipated risks;

- foreign currency risk;

- a computer system failure or security breach; and

- global climate changes.

Recently Adopted Accounting Pronouncements

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

Legal Proceedings

The Company is a respondent in a number of legal proceedings, some of which involve allegations for extra-contractual damages. Although the Company is confident of its position in these matters, success is not a certainty and a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's condensed consolidated financial statements. The Company believes adequate provision has been made in its condensed consolidated financial statements for all probable and reasonably estimable losses for litigation claims against the Company. For a further discussion, see the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

Ratings

An insurer's financial strength rating represents an opinion by the issuing rating agency regarding the ability of an insurance company to meet its financial obligations to its policyholders and contract holders. A rating is an opinion of the rating agency only and not a statement of fact or recommendation to purchase, sell or hold any security, policy or contract. These ratings do not imply approval of the Company's products and do not reflect any indication of their performance. There can be no assurance that Pacific Life's ratings will continue for any given period of time or that they will not be adjusted or withdrawn. In July 2016, Standard and Poor's Rating Services announced that they have upgraded their financial strength rating for Pacific Life from A+ to AA-. Pacific Life's financial strength ratings and outlook as of the date of this Semi-annual Report are set forth in the chart below.

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

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

Employees

As of June 30, 2016, the Company had over 3,100 employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its employee relations are satisfactory.

Properties

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

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

Unaudited GAAP Condensed Financial Statements of Pacific Life Funding, LLC as of June 30, 2016 and for the six months ended June 30, 2016 and 2015

Unaudited GAAP Condensed Consolidated Financial Statements of Pacific Life Insurance Company and Subsidiaries as of June 30, 2016 and December 31, 2015 and for the six months ended June 30, 2016 and 2015

Pacific Life Funding, LLC

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

(In Thousands)	June 30, 2016
ASSETS	
Cash	$26
Funding Agreements	108,302
Accrued interest receivable	595
TOTAL ASSETS	$108,923
LIABILITIES AND MEMBER'S EQUITY	
Liabilities:	
Notes payable	$108,302
Accrued interest payable	595
TOTAL LIABILITIES	108,897
Member's Equity:	
Share capital	1
Retained earnings	25
TOTAL MEMBER'S EQUITY	26
TOTAL LIABILITIES AND MEMBER'S EQUITY	$108,923

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

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

(In Thousands)	Six Months Ended June 30, 2016	2015
INCOME		
Interest on Funding Agreements	$1,173	$2,621
Foreign exchange gain on Funding Agreements	2,380	54,640
TOTAL INCOME	3,553	57,261
EXPENSES		
Interest on notes payable	1,173	2,621
Foreign exchange loss on notes payable	2,380	54,640
TOTAL EXPENSES	3,553	57,261
NET INCOME	$0	$0
RETAINED EARNINGS, BEGINNING OF PERIOD	$25	$25
Net income	0	0
RETAINED EARNINGS, END OF PERIOD	$25	$25

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

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

(In Thousands)	Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$0	$0
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in accrued interest receivable	1,037	16,900
Change in accrued interest payable	(1,037)	(16,900)
NET CASH PROVIDED BY OPERATING ACTIVITIES	0	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of Funding Agreements		413,524
NET CASH PROVIDED BY INVESTING ACTIVITIES		413,524
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of notes payable		(413,524)
NET CASH USED IN FINANCING ACTIVITIES		(413,524)
NET CHANGE IN CASH	0	0
Cash, beginning of period	26	26
CASH, END OF PERIOD	$26	$26
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$2,210	$19,521

See Notes to Condensed Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

The Company has established a program (the Program) for the issuance of up to $8 billion of debt instruments. Each series or tranche of instruments issued under the Program is secured by a funding agreement (the Funding Agreements) entered into between the Company and Pacific Life Insurance Company (Pacific Life), a stock life insurance company domiciled in the State of Nebraska. The Company has funded its investment in the Funding Agreements through the issuance of notes payable (Note 4).

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The information set forth in the accompanying condensed balance sheet as of June 30, 2016 and the accompanying condensed statements of operations and retained earnings and cash flows for the six months ended June 30, 2016 and 2015 is unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted. The information presented reflects all adjustments, including normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position and results of operations of the Company for the periods indicated. Results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

The Company’s financial statements have been prepared in accordance with U.S. GAAP. According to the European Commission Decision 2008/961/EC of 12 December 2008, as amended by European Commission Decision 2012/194/EU of 11 April 2012, third country issuers may prepare their annual and semi-annual financial statements in accordance with U.S. GAAP finding it equivalent to International Financial Reporting Standards (IFRS). The Company's functional currency is the dollar of the United States of America (U.S. dollar).

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

The Company has evaluated events subsequent to June 30, 2016 through August 23, 2016, the date the condensed financial statements were available to be issued, and has concluded that no events have occurred that require disclosure or adjustment to these financial statements.

3. TRANSACTIONS WITH AFFILIATES

The Funding Agreements, included on the condensed balance sheet, were purchased from Pacific Life. In addition, the Company has an agreement in which certain general operating and administrative expenses of the Company are paid directly by Pacific Life. During the six months ended June 30, 2016 and 2015, Pacific Life paid $106 thousand and $113 thousand, respectively, on behalf of the Company for general operating and administrative expenses.

4. FUNDING AGREEMENTS/NOTES PAYABLE

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

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

The Instruments may be interest bearing or non-interest bearing, and any interest may accrue at either a fixed or floating rate. The notes mature on dates ranging from June 2017 to February 2021.

The following schedule details the notes payable outstanding as of June 30, 2016. The detail schedule for the Funding Agreements is not included, but would contain similar information, except that the schedule would reflect the investments related to the Instruments.

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

June 30, 2016:

Issue	Currency	Principal Denominated in Currency of Issuance	Maturity	Interest Rate	Principal [1]	Foreign Currency Gains (Losses)	Carrying Value
		(In Thousands)				($ In Thousands)	
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	$6,340	($769)	$5,571
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	40,880	(343)	40,537
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	6,789	32,207
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	4,674	29,987
TOTAL					$97,951	$10,351	$108,302

(1) U.S. dollar equivalent at issuance.

5. SHARE CAPITAL

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

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

As of June 30, 2016, one thousand ordinary shares had been issued at par to MaplesFS Limited.

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(In Millions)	June 30, 2016	December 31, 2015
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$42,935	$38,725
Equity securities available for sale, at estimated fair value	84	88
Fair value option securities	617	536
Mortgage loans (includes VIE assets of $1,800 and $1,800)	11,849	11,092
Policy loans	7,242	7,331
Other investments (includes VIE assets of $253 and $197)	2,439	2,024
TOTAL INVESTMENTS	65,166	59,796
Cash and cash equivalents (includes VIE assets of $10 and $7)	1,350	1,845
Restricted cash (includes VIE assets of $0 and $117)	172	265
Deferred policy acquisition costs	4,654	4,719
Aircraft, net (includes VIE assets of $0 and $713)	8,135	8,307
Other assets (includes VIE assets of $5 and $32)	3,347	3,145
Separate account assets	56,526	56,974
TOTAL ASSETS	$139,350	$135,051
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$42,999	$41,359
Future policy benefits	15,448	14,088
Debt (includes VIE debt of $1,575 and $1,813)	9,308	9,506
Other liabilities (includes VIE liabilities of $6 and $165)	4,084	3,438
Separate account liabilities	56,526	56,974
TOTAL LIABILITIES	128,365	125,365
Commitments and contingencies (Note 16)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	1,012	1,012
Retained earnings	8,074	7,868
Accumulated other comprehensive income	1,758	688
Total Stockholder's Equity	10,874	9,598
Noncontrolling interests	111	88
TOTAL EQUITY	10,985	9,686
TOTAL LIABILITIES AND EQUITY	$139,350	$135,051

The abbreviation VIE above means variable interest entity.

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2016	2015
REVENUES		
Policy fees and insurance premiums	$1,947	$1,745
Net investment income	1,267	1,296
Net realized investment gain (loss)	(437)	428
OTTI, consisting of $28 and $19 in total, net of $9 and $0 recognized in OCI	(19)	(19)
Investment advisory fees	145	184
Aircraft leasing revenue	436	408
Other income	161	132
TOTAL REVENUES	3,500	4,174
BENEFITS AND EXPENSES		
Policy benefits paid or provided	1,469	1,302
Interest credited to policyholder account balances	643	612
Commission expenses	186	866
Operating and other expenses	952	933
TOTAL BENEFITS AND EXPENSES	3,250	3,713
INCOME BEFORE PROVISION FOR INCOME TAXES	250	461
Provision for income taxes	40	100
Net income	210	361
Less: net (income) loss attributable to noncontrolling interests	(4)	1
NET INCOME ATTRIBUTABLE TO THE COMPANY	$206	$362

The abbreviation OTTI above means other than temporary impairment losses.

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

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(In Millions)	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
NET INCOME	$210	$361
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	1,064	(385)
Reclassification adjustment for loss included in net income	8	5
Gain (loss) on derivatives and unrealized gain (loss) on securities available for sale, net	1,072	(380)
Other, net	(2)	(1)
Other comprehensive income (loss)	1,070	(381)
Comprehensive income (loss)	1,280	(20)
Less: comprehensive (income) loss attributable to noncontrolling interests	(4)	1
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$1,276	($19)

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(In Millions)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Gain (Loss) On Derivatives and Unrealized Gain (Loss) On Securities Available for Sale, Net	Accumulated Other Comprehensive Income: Other, Net	Total Stockholder's Equity	Noncontrolling Interests	Total Equity
BALANCES, JANUARY 1, 2015	**$30**	**$982**	**$7,264**	**$1,374**	**($12)**	**$9,638**	**$104**	**$9,742**
Comprehensive income (loss):								
Net income (loss)			362			362	(1)	361
Other comprehensive loss				(380)	(1)	(381)		(381)
Total comprehensive loss						(19)	(1)	(20)
Change in equity of noncontrolling interests							(13)	(13)
BALANCES, JUNE 30, 2015	**$30**	**$982**	**$7,626**	**$994**	**($13)**	**$9,619**	**$90**	**$9,709**
BALANCES, JANUARY 1, 2016	**$30**	**$1,012**	**$7,868**	**$705**	**($17)**	**$9,598**	**$88**	**$9,686**
Comprehensive income (loss):								
Net income			206			206	4	210
Other comprehensive income (loss)				1,072	(2)	1,070		1,070
Total comprehensive income						1,276	4	1,280
Change in equity of noncontrolling interests							19	19
BALANCES, JUNE 30, 2016	**$30**	**$1,012**	**$8,074**	**$1,777**	**($19)**	**$10,874**	**$111**	**$10,985**

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
(In Millions)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$210	$361
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion on fixed maturity securities	(24)	(35)
Depreciation and amortization	201	224
Deferred income taxes	(3)	63
Net realized investment (gain) loss	437	(428)
Other than temporary impairments	19	19
Net change in deferred policy acquisition costs	(239)	438
Interest credited to policyholder account balances	643	612
Net change in future policy benefits	720	538
Other operating activities, net	(359)	(87)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,605	1,705
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed maturity and equity securities available for sale:		
Purchases	(3,521)	(3,478)
Sales	437	281
Maturities and repayments	1,248	1,119
Repayments of mortgage loans	207	642
Fundings of mortgage loans and real estate	(1,127)	(452)
Funding of CMBS VIE mortgage loan		(1,050)
Net change in policy loans	89	132
Terminations of derivative instruments, net	14	106
Proceeds from nonhedging derivative settlements	94	30
Payments for nonhedging derivative settlements	(267)	(175)
Net change in cash collateral received or pledged	45	(33)
Purchases of and advance payments on aircraft	(409)	(311)
Proceeds from sale of aircraft	371	121
Other investing activities, net	(136)	143
NET CASH USED IN INVESTING ACTIVITIES	(2,955)	(2,925)

(Continued)

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

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2016	2015
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholder account balances:		
Deposits	$3,285	$2,776
Withdrawals	(2,421)	(2,877)
Net change in short-term debt	(97)	251
Issuance of long-term debt	327	63
Issuance of CMBS VIE debt		845
Partial retirement of surplus notes	(80)	
Payments of long-term debt	(396)	(449)
Other financing activities, net	237	(13)
NET CASH PROVIDED BY FINANCING ACTIVITIES	855	596
Net change in cash and cash equivalents	(495)	(624)
Cash and cash equivalents, beginning of period	1,845	3,220
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,350	$2,596
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid (received), net	$18	($109)
Interest paid	$195	$189

See Notes to Condensed Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The information set forth in the accompanying condensed consolidated statements of financial condition as of June 30, 2016 and the accompanying condensed consolidated statements of operations, comprehensive income (loss), equity and cash flows for the six months ended June 30, 2016 and 2015 is unaudited and has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The information presented reflects all adjustments, including normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position and results of operations of Pacific Life Insurance Company and subsidiaries (the Company) for the periods indicated. Results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year. The condensed consolidated statement of financial condition as of December 31, 2015 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2015. Therefore, the information included in these unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2015.

The accompanying condensed consolidated financial statements of the Company include the accounts of Pacific Life and its majority owned and controlled subsidiaries and the variable interest entities (VIEs) in which the Company 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 condensed consolidated financial statements to conform to the 2016 financial statement presentation.

The Company has evaluated events subsequent to June 30, 2016 through August 18, 2016, the date the condensed consolidated financial statements were available to be issued. See Note 16 for discussion of a subsequent event.

3. NEW ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, which modifies the Accounting Standards Codification's (Codification) Fair Value Measurement Topic. This ASU requires a reporting entity to exclude any investments for which fair value is measured using net asset value (NAV) as a practical expedient from the fair value hierarchy disclosures. In 2015, the Company early adopted this ASU and applied it retrospectively. This guidance only impacted financial statement disclosures (Note 11) and had no impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued 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 condensed consolidated statements of financial condition and Note 10. Other assets and debt as of December 31, 2015 have decreased by $84 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 5) and had no impact on the Company's condensed consolidated financial statements.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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

In February 2016, the FASB issued new guidance on leasing transactions, ASU 2016-02. The new guidance is effective January 1, 2019, including interim periods within those fiscal years, and requires a modified retrospective transition approach which includes a number of optional practical expedients. Early adoption is permitted. 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. 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 Company is currently evaluating the impact of this guidance on its condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Company plans to adopt this ASU prospectively on January 1, 2018. 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. The Company is currently evaluating the impact of this guidance on its condensed consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard, ASU 2014-09, effective retrospectively for the year ended December 31, 2018. 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. The Company is currently evaluating the impact of this guidance on its condensed consolidated financial statements.

4. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

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 $64 million and $62 million as of June 30, 2016 and December 31, 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 June 30, 2016 and December 31, 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 $377 million and $426 million for the six months ended June 30, 2016 and 2015, respectively. Statutory capital and surplus of Pacific Life was $8,046 million and $7,762 million as of June 30, 2016 and December 31, 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 June 30, 2016, Pacific Life's total statutory reserve credit was $1,955 million, of which $1,284 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.

RISK-BASED CAPITAL

Risk-based capital is a method developed by the NAIC to measure the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Additionally, certain risks are required to be measured using actuarial cash flow modeling techniques, subject to formulaic minimums. The adequacy of a company's actual capital is measured by a comparison to the risk-based capital results. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of June 30, 2016 and December 31, 2015, Pacific Life, Pacific Life & Annuity Company (PL&A), an Arizona domiciled life insurance company, Pacific Alliance Reinsurance Company of Vermont (PAR Vermont), and Pacific Baleine Reinsurance Company (PBRC) all exceeded the minimum risk-based capital requirements. PAR Vermont and PBRC are Vermont based special purpose financial insurance companies subject to regulatory supervision by the Vermont

Department of Financial Regulation. PL&A, PAR Vermont and PBRC are wholly owned subsidiaries of Pacific Life and accredited authorized reinsurers in Nebraska.

DIVIDEND RESTRICTIONS

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the State of Nebraska insurance laws. These laws require (i) notification to the NE DOI for the declaration and payment of any dividend and (ii) approval by the NE DOI for accumulated dividends within the preceding twelve months that exceed the greater of 10% of statutory policyholder surplus as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Generally, these restrictions pose no short-term liquidity concerns for Pacific LifeCorp. Based on these restrictions and 2015 statutory results, Pacific Life could pay $608 million in dividends in 2016 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement. No dividends were paid during the six months ended June 30, 2016 and 2015.

The payment of dividends by PL&A to Pacific Life is subject to restrictions set forth in the State of Arizona insurance laws. These laws require (i) notification to the Arizona Department of Insurance (AZ DOI) for the declaration and payment of any dividend and (ii) approval by the AZ DOI for accumulated dividends within the preceding twelve months that exceed the lesser of 10% of statutory surplus as regards to policyholders as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Based on this limitation and 2015 statutory results, PL&A could pay $39 million in dividends to Pacific Life in 2016 without prior regulatory approval. No dividends were paid during the six months ended June 30, 2016 and 2015. In December 2015, PL&A paid a dividend to Pacific Life of $37 million.

5. VARIABLE INTEREST ENTITIES

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

CONSOLIDATED VIEs

The following table presents, as of June 30, 2016 and December 31, 2015, the assets and liabilities, which the Company has consolidated because it is the primary beneficiary:

	Consolidated VIEs	
	Assets	Liabilities
June 30, 2016:	*(In Millions)*	
Commercial mortgage-backed securities	$1,805	$1,525
Sponsored investment funds	207	13
Other	56	43
Total	$2,068	$1,581
December 31, 2015:		
Commercial mortgage-backed securities	$1,805	$1,525
Sponsored investment funds	204	10
Aircraft securitization	857	443
Total	$2,866	$1,978

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 condensed 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 June 30, 2016 and December 31, 2015. Non-recourse debt consolidated by the Company was $1,521 million as of June 30, 2016 and December 31, 2015 (included in CMBS VIE debt in Note 10).

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 $13 million and $10 million as of June 30, 2016 and December 31, 2015, respectively (included in other VIE debt in Note 10). The line of credit has a $15 million borrowing capacity. The Company's unfunded commitment to the limited partnerships was $173 million and $75 million as of June 30, 2016 and December 31, 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 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 condensed consolidated financial statements of the Company. Non-recourse debt consolidated by the Company was $282 million as of December 31, 2015, respectively (included in ACG VIE debt in Note 10).

During 2016, all of the outstanding debt associated with the securitization sponsored in 2005 was retired. Absent the cash flow requirements associated with the debt, 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.

OTHER

Other relates to two real estate properties. The Company has determined that it is the primary beneficiary of these real estate properties due to the controlling financial interest the Company has over these entities and has consolidated the VIEs into the condensed consolidated financial statements of the Company. The Company's exposure is limited to its investment of $12 million as of June 30, 2016. Non-recourse debt consolidated by the Company was $41 million as of June 30, 2016 (included in other VIE debt in Note 10).

FINANCING STRUCTURES

ACG has participated in the design and formation of certain 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 United Kingdom (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 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 June 30, 2016 and December 31, 2015, totaled $1,787 million and $1,821 million, respectively, and are included in aircraft, net on the condensed consolidated statements of financial condition. Also, as of June 30, 2016 and December 31, 2015, liabilities associated with these financing structures totaled $1,041 million and $1,134 million, respectively, and are included in debt on the condensed consolidated statements of financial condition. See Notes 8 and 10.

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
	(In Millions)	
June 30, 2016:		
Mortgage loans	$80	$104
Other investments	748	1,284
Total	$828	$1,388
December 31, 2015:		
Mortgage loans	$60	$104
Other investments	856	1,325
Total	$916	$1,429

MORTGAGE LOANS

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

OTHER INVESTMENTS

Other investments are primarily limited partnership investments that include private equity funds and equity in real estate 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 7 for the net carrying amount and estimated fair value of the structured security investments.

6. DEFERRED POLICY ACQUISITION COSTS

Components of the DAC asset are as follows:

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In Millions)	
Balance, January 1	$4,719	$4,742
Additions:		
Capitalized during the period	230	256
Amortization:		
Allocated to commission expenses	14	(669)
Allocated to operating expenses	(5)	(25)
Total amortization	9	(694)
Allocated to OCI	(304)	98
Balance, June 30	$4,654	$4,402

During the six months ended June 30, 2016 and 2015, the Company revised certain assumptions used to develop estimated gross profits (EGPs) for its products subject to DAC amortization. This resulted in an increase of $8 million and $87 million in DAC amortization expense for the six months ended June 30, 2016 and 2015, respectively.

The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The capitalized sales inducement balance included in the DAC asset was $628 million and $568 million as of June 30, 2016 and 2015, respectively.

7. 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 11 for information on the Company's estimated fair value measurements and disclosure.

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In Millions)		
June 30, 2016:				
U.S. Government	$49	$11		$60
Obligations of states and political subdivisions	805	200		1,005
Foreign governments	541	62	$2	601
Corporate securities	33,625	3,243	203	36,665
RMBS	2,298	116	46	2,368
CMBS	846	49	1	894
Collateralized debt obligations	70	8	1	77
Other asset-backed securities	1,198	76	9	1,265
Total fixed maturity securities	$39,432	$3,765	$262	$42,935
Perpetual preferred securities	$68	$8	$8	$68
Other equity securities	15	1		16
Total equity securities	$83	$9	$8	$84

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In Millions)		
December 31, 2015:				
U.S. Government	$49	$8		$57
Obligations of states and political subdivisions	815	125	$2	938
Foreign governments	546	52	6	592
Corporate securities	31,727	1,630	691	32,666
RMBS	2,490	115	49	2,556
CMBS	796	24	7	813
Collateralized debt obligations	55	10		65
Other asset-backed securities	993	57	12	1,038
Total fixed maturity securities	$37,471	$2,021	$767	$38,725
Perpetual preferred securities	$84	$6	$4	$86
Other equity securities	1	1		2
Total equity securities	$85	$7	$4	$88

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of June 30, 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 Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
Due in one year or less	$1,474	$29	$5	$1,498
Due after one year through five years	6,731	577	56	7,252
Due after five years through ten years	15,912	1,031	87	16,856
Due after ten years	10,903	1,879	57	12,725
	35,020	3,516	205	38,331
Mortgage-backed and asset-backed securities	4,412	249	57	4,604
Total fixed maturity securities	$39,432	$3,765	$262	$42,935

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)	
June 30, 2016:			
Foreign governments	6	$67	$2
Corporate securities	302	2,806	203
RMBS	105	727	46
CMBS	7	31	1
Collateralized debt obligations	1	6	1
Other asset-backed securities	25	251	9
Total fixed maturity securities	446	3,888	262
Perpetual preferred securities	7	37	8
Other investments	9	25	10
Total other investments	16	62	18
Total	462	$3,950	$280

	Less than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)			(In Millions)	
June 30, 2016:						
Foreign governments	3	$39	$1	3	$28	$1
Corporate securities	100	888	30	202	1,918	173
RMBS	27	158	2	78	569	44
CMBS				7	31	1
Collateralized debt obligations	1	6	1			
Other asset-backed securities	19	194	3	6	57	6
Total fixed maturity securities	150	1,285	37	296	2,603	225
Perpetual preferred securities	3	23	3	4	14	5
Other investments	7	21	9	2	4	1
Total other investments	10	44	12	6	18	6
Total	160	$1,329	$49	302	$2,621	$231

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

	Less than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)			(In Millions)	
December 31, 2015:						
Obligations of states and political subdivisions	3	$134	$2			
Foreign governments	7	43	5	3	$19	$1
Corporate securities	831	9,473	413	158	1,312	278
RMBS	31	467	5	70	505	44
CMBS	17	273	7			
Other asset-backed securities	57	527	10	3	6	2
Total fixed maturity securities	946	10,917	442	234	1,842	325
Perpetual preferred securities	2	9	1	2	9	3
Other investments	4	18	5			
Total other investments	6	27	6	2	9	3
Total	952	$10,944	$448	236	$1,851	$328

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.

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

	June 30, 2016	December 31, 2015
	(In Millions)	
Security loans outstanding, estimated fair value [1]	$217	$157
Reinvestment portfolio, estimated fair value [2]	224	161
Cash collateral liability [3]	224	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:

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In Millions)	
Fixed maturity securities	$888	$819
Equity securities	1	2
Mortgage loans	267	330
Real estate	60	55
Policy loans	103	101
Partnerships and joint ventures	15	57
Other	20	17
Gross investment income	1,354	1,381
Investment expense	87	85
Net investment income	$1,267	$1,296

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In Millions)	
Fixed maturity securities:		
Gross gains on sales	$12	$9
Gross losses on sales	(5)	(2)
Total fixed maturity securities	7	7
Fair value option securities and trading securities	89	(39)
Variable annuity guaranteed living benefit embedded derivatives	(514)	425
Variable annuity guaranteed living benefit policy fees	81	107
Variable annuity derivatives - total return swaps	(12)	(49)
Variable annuity derivatives - futures	(123)	(38)
Fixed indexed annuity embedded derivatives	(17)	(4)
Fixed indexed annuity derivatives - total return swaps	(1)	
Fixed indexed annuity derivatives - futures	6	2
Synthetic GIC policy fees	22	22
Foreign currency and interest rate swaps	10	2
Life indexed account embedded derivatives	6	(4)
Life indexed account derivatives - call options	(10)	4
Other	19	(7)
Net realized investment gain (loss)	($437)	$428

The table below summarizes the OTTI by investment type:

	Recognized in Earnings	Included in Other Comprehensive Income	Total
		(In Millions)	
Six months ended June 30, 2016:			
Corporate securities	$14		$14
RMBS	5	$9	14
Total OTTI	$19	$9	$28
Six months ended June 30, 2015:			
Corporate securities	$10		$10
Total OTTI - fixed maturity securities	10	-	10
Mortgage loans	6		6
Other investments	3		3
Total OTTI	$19	-	$19

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In Millions)	
Cumulative credit loss, January 1	$187	$188
Additions for credit impairments recognized on:		
Securities previously other than temporarily impaired	5	
Total additions	5	
Reductions for credit impairments previously recognized on:		
Securities due to an increase in expected cash flows and time value of cash flows	(2)	(2)
Total subtractions	(2)	(2)
Cumulative credit loss, June 30	$190	$186

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)	
June 30, 2016:			
Foreign governments		$2	$2
Corporate securities	$5	198	203
RMBS	30	16	46
CMBS		1	1
Collateralized debt obligations	1		1
Other asset-backed securities		9	9
Total fixed maturity securities	$36	$226	$262
Perpetual preferred securities	$4	$4	$8
Total equity securities	$4	$4	$8

	Gross Unrealized Losses		
	OTTI Investments	Non-OTTI Investments	Total
		(In Millions)	
December 31, 2015:			
Obligations of states and political subdivisions		$2	$2
Foreign governments		6	6
Corporate securities	$2	689	691
RMBS	35	14	49
CMBS		7	7
Other asset-backed securities		12	12
Total fixed maturity securities	$37	$730	$767
Perpetual preferred securities		$4	$4
Total equity securities	-	$4	$4

Trading securities, included in other investments, totaled $239 million and $209 million as of June 30, 2016 and December 31, 2015, respectively. The cumulative net unrealized gain (loss) on trading securities held as of June 30, 2016 and December 31, 2015 was $5 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 was $7 million and ($3) million for the six months ended June 30, 2016 and 2015, respectively.

Fair value option (FVO) securities consist of U.S. Government securities. FVO securities totaled $617 million and $536 million as of June 30, 2016 and December 31, 2015, respectively. The change in unrealized gain (loss) on FVO securities is recognized in net realized investment gain (loss) and was $81 million and ($40) million for the six months ended June 30, 2016 and 2015, respectively. Interest income earned from FVO securities is recorded in net investment income and was $8 million for the six months ended June 30, 2016 and 2015.

Mortgage loans totaled $11,849 million and $11,092 million as of June 30, 2016 and December 31, 2015, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of June 30, 2016, $2,329 million, $1,683 million, $1,484 million, $1,346 million and $1,176 million were located in Texas, New York, California, Washington and District of

Columbia, respectively. Included in the June 30, 2016 amounts for Texas and New York are $1,050 million and $750 million, respectively, consolidated from the CMBS VIEs (Note 5). As of June 30, 2016, $276 million and $177 million were located in Canada and the UK, respectively.

As of June 30, 2016, there were 16 loans with a book value of $328 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 June 30, 2015, there were six loans in the amount of $56 million that were considered impaired and an impairment loss of $6 million was recognized during the six months ended June 30, 2015 as the fair value of the underlying collateral of one of these loans was lower than its carrying value. See Note 11. No impairment loss was recorded on the other loans since the estimated fair value of the underlying collateral on these loans was greater than their carrying amount of the loans. As of June 30, 2016, there was no single mortgage loan investment that exceeded 10% of stockholder's equity. The Company did not have any mortgage loans with accrued interest more than 180 days past due as of June 30, 2016. The Company had one mortgage loan with accrued interest more than 180 days past due as of June 30, 2015.

Real estate investments totaled $509 million and $345 million as of June 30, 2016 and December 31, 2015, respectively, and are included in other investments. There were no real estate impairments during the six months ended June 30, 2016 and 2015.

8. AIRCRAFT, NET

Aircraft, net, consists of the following:

	June 30, 2016	December 31, 2015
	(In Millions)	
Aircraft	$9,829	$10,249
Accumulated depreciation	1,694	1,942
Aircraft, net	$8,135	$8,307

As of June 30, 2016 and December 31, 2015, aircraft with a carrying amount of $2,033 million and $2,871 million, respectively, were assigned as collateral to secure debt (Note 10). See Note 5 for amounts related to VIEs.

During the six months ended June 30, 2016 and 2015, ACG recognized aircraft impairments of $29 million and $22 million, respectively, which are included in operating and other expenses. See Note 11.

During the six months ended June 30, 2016 and 2015, ACG recognized gain (loss) on the sale of aircraft of $21 million and ($2) million, respectively, which are included in other income. Aircraft held for sale totaled $621 million and $244 million as of June 30, 2016 and December 31, 2015, respectively, and are included in aircraft, net.

See Note 16 for future aircraft purchase commitments.

9. 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 guaranteed living benefits (GLBs) are considered embedded derivatives.

GLBs on variable annuity contracts issued between January 1, 2007 and March 31, 2009 are partially reinsured by third party reinsurers. These reinsurance arrangements are used to offset a portion of the Company's exposure to the GLBs for the lives of the host variable annuity contracts issued. The ceded portion of these GLBs is considered an embedded derivative. The Company also reinsures certain variable annuity contracts with guaranteed minimum benefits to an affiliated reinsurer.

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

The Company offers fixed indexed annuity products where interest is credited to the policyholder’s account balance based on domestic and 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 credit paid to the policyholder on the underlying equity index.

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 June 30, 2016 and December 31, 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	
	June 30, 2016	December 31, 2015
	(In Millions)	
Variable annuity GLB embedded derivatives	$30,733	$31,562
Variable annuity derivatives - total return swaps	1,492	1,683
Variable annuity derivatives - futures	1,587	888
Variable annuity derivatives - interest rate swaps	115	110
Fixed indexed annuity embedded derivatives	3,171	2,638
Fixed indexed annuity derivatives - total return swaps	12	12
Fixed indexed annuity derivatives - futures	475	410
Synthetic GICs	21,803	21,451
Foreign currency and interest rate swaps	1,358	1,225
Life indexed account embedded derivatives	3,540	3,251
Life indexed account derivatives - call options	3,860	3,528
Other	822	778

Notional amount represents a standard of measurement of the volume of derivatives. Notional amount is not a quantification of market risk or credit risk and is not recorded in the condensed consolidated statements of financial condition. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps. 13% of variable annuity notional amounts are reinsured by third-party reinsurers as of June 30, 2016 and December 31, 2015. 4% of variable annuity notional amounts are reinsured by an affiliated reinsurer as of June 30, 2016 and December 31, 2015.

The following table summarizes amounts recognized in net realized investment gain (loss) for derivatives not designated as a hedge. Gains and losses include the changes in estimated fair value of the derivatives and amounts realized on terminations. The amounts presented do not include the periodic net payments and amortization of $193 million and $162 million for the six months ended June 30, 2016 and 2015, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Income on Derivatives	
	Six Months Ended June 30,	
	2016	2015
	(In Millions)	
Variable annuity derivatives - total return swaps	($8)	$22
Fixed indexed annuity derivatives - total return swaps	(1)	
Foreign currency and interest rate swaps	49	6
Life indexed account derivatives - call options	61	58
Other	1	(3)
Embedded derivatives:		
Variable annuity GLB embedded derivatives	(514)	425
Fixed indexed annuity embedded derivatives	(17)	(4)
Life indexed account embedded derivatives	6	(4)
Other	12	1
Total	($411)	$501

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 10 years.

The Company had outstanding foreign currency and interest rate swaps designated as cash flow hedges with notional amounts of $293 million and $310 million as of June 30, 2016 and December 31, 2015, respectively. The Company had gains and (losses) recognized in OCI for changes in estimated fair value of foreign currency and interest rate swaps designated as cash flow hedges of ($1) million and $6 million for the six months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, all of the hedged forecasted transactions for cash flow hedges were determined to be probable of occurring.

Hedge ineffectiveness related to cash flow hedges was zero for the six months ended June 30, 2016 and 2015.

Amounts reclassified from accumulated other comprehensive income (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 six months ended June 30, 2016 and 2015. Over the next twelve months, the Company anticipates that $2 million of deferred gains on derivative instruments in AOCI will be reclassified to earnings consistent with when the hedged forecasted transaction affects earnings.

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

The Company had no fair value hedges as of June 30, 2016 and December 31, 2015.

CONDENSED 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 11 for information on the Company's estimated fair value measurements and disclosure.

	Asset Derivatives Estimated Fair Value			Liability Derivatives Estimated Fair Value		
	June 30, 2016	December 31, 2015		June 30, 2016	December 31, 2015	
	(In Millions)			*(In Millions)*		
Derivatives designated as hedging instruments:						
Foreign currency and interest rate swaps	$6	$5	(5)	$13	$12	(5)
Total derivatives designated as hedging instruments	6	5		13	12	
Derivatives not designated as hedging instruments:						
Variable annuity derivatives - total return swaps	3	12	(1)	4	5	(1)
	9	3	(5)	7	2	(5)
Variable annuity derivatives - interest rate swaps		3	(1)		1	(1)
	13		(5)			
Foreign currency and interest rate swaps	90	108	(1)	8	8	(1)
	79	13	(5)	28	28	(5)
Life indexed account derivatives - call options	85	66	(1)	1	1	(1)
	48	19	(5)		1	(5)
Other				1		(5)
Embedded derivatives:						
Variable annuity GLB embedded derivatives (including reinsurance contracts)	335	190	(2)	1,859	1,200	(3)
Fixed indexed annuity embedded derivatives				217	167	(4)
Life indexed account embedded derivatives				249	191	(4)
Other	16		(2)		1	(2)
				10	7	(4)
				9	3	(5)
Total derivatives not designated as hedging instruments	678	414		2,393	1,615	
Total derivatives	$684	$419		$2,406	$1,627	

Location on the condensed consolidated statements of financial condition:
(1) Other investments (2) Other assets (3) Future policy benefits (4) Policyholder account balances (5) Other liabilities

Cash collateral received from counterparties was $148 million and $74 million as of June 30, 2016 and December 31, 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 $100 million and $71 million as of June 30, 2016 and December 31, 2015, respectively. A receivable representing the right to call this collateral back from the counterparty is netted against the estimated fair value of derivatives in other investments or other liabilities. Net exposure to the counterparty is calculated as the estimated fair value of all derivative positions with the counterparty, net of income or expense accruals and cash collateral paid or received. If the net exposure to the counterparty is positive, the amount is reflected in other investments, whereas, if the net exposure to the counterparty is negative, the estimated fair value is included in other liabilities.

As of June 30, 2016 and December 31, 2015, the Company had also accepted collateral, consisting of various securities, with an estimated fair value of $41 million and $45 million, respectively, which are held in separate custodial accounts and are not recorded in the condensed consolidated statements of financial condition. The Company is permitted by contract to sell or repledge this collateral and as of June 30, 2016 and December 31, 2015, none of the collateral had been sold or repledged. As of June 30, 2016 and December 31, 2015, the Company provided collateral in the form of various securities with an estimated fair value of $5 million, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

OFFSETTING ASSETS AND LIABILITIES

The following table reconciles the net amount of derivative assets and liabilities (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)		
June 30, 2016:					
Derivative assets	$261	($187)	$74	($38)	$36
Derivative liabilities	85	(78)	7		7
December 31, 2015:					
Derivative assets	$191	($125)	$66	($45)	$21
Derivative liabilities	107	(67)	40		40

(1) As of June 30, 2016 and December 31, 2015, derivative assets include expense accruals of $57 million and $22 million, respectively, and derivative liabilities include expense accruals of $39 million and $66 million, respectively.
(2) As of June 30, 2016 and December 31, 2015, the Company received excess cash collateral of $33 million and $1 million, respectively, and provided excess cash collateral of $2 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 may also include collateral arrangements with derivative counterparties, which may require both the pledge and acceptance of collateral when the net estimated fair value of the underlying derivatives reaches a pre-determined threshold.

The Company's credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of accrued income or expenses and collateral received, if any. The Company's credit exposure for OTC derivatives as of June 30, 2016 was $20 million. The maximum exposure to any single counterparty was $6 million as of June 30, 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 June 30, 2016, was $12 million for which the Company has posted collateral of $6 million. If certain of the Company's financial strength ratings were to fall one notch as of June 30, 2016, the Company would have been required to post an additional $4 million of collateral to its counterparties.

The OTC master agreements may include a termination event clause associated with financial strength ratings assigned by certain independent rating agencies. If these financial strength ratings were to fall below a specified level, as defined within each counterparty master agreement or if one of the rating agencies were to cease to provide a financial strength rating, the counterparty could terminate the master agreement with payment due based on the estimated fair value of the underlying derivatives. As of June 30, 2016, the Company's financial strength ratings were above the specified level.

10. DEBT

Debt consists of the following:

	June 30, 2016	December 31, 2015
	(In Millions)	
Short-term debt:		
Commercial paper	$50	
Credit facility recourse only to ACG	335	$485
Other VIE debt (Note 5)	13	10
Total short-term debt	398	495
Long-term debt:		
Surplus notes	1,715	1,771
Fair value hedge adjustments - terminated interest rate swap agreements	247	271
Note payable to Pacific LifeCorp	15	15
Non-recourse long-term debt:		
Debt recourse only to ACG	5,160	5,021
Other non-recourse debt	286	214
ACG VIE debt (Note 5)		282
CMBS VIE debt (Note 5)	1,521	1,521
Other VIE debt (Note 5)	41	
Total long-term debt	8,985	9,095
Debt issuance cost	(75)	(84)
Total debt	$9,308	$9,506

SHORT-TERM DEBT

Pacific Life maintains a $700 million commercial paper program. There was $50 million and zero of commercial paper debt outstanding as of June 30, 2016 and December 31, 2015, respectively. 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 June 30, 2016 and December 31, 2015. As of and during the six months ended June 30, 2016, Pacific Life was in compliance with the debt covenants related to these facilities.

The Company maintains reverse repurchase lines of credit with various financial institutions. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with these reverse repurchase lines of credit as of June 30, 2016 and December 31, 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 June 30, 2016. Interest is at variable or fixed rates. The Company had no debt outstanding with the FHLB of Topeka as of June 30, 2016 and December 31, 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 $45 million as of June 30, 2016. Interest is at variable or fixed rates. PL&A had no debt outstanding with the FHLB of San Francisco as of June 30, 2016 and December 31, 2015.

ACG has revolving credit agreements with banks totaling $1,720 million borrowing capacity. There was $335 million and $485 million outstanding in connection with these revolving credit agreements as of June 30, 2016 and December 31, 2015, respectively. Interest on these loans is at variable rates, payable monthly and was 2.0% as of June 30, 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. These credit agreements are recourse only to ACG.

LONG-TERM DEBT

Pacific Life has $621 million and $677 million of surplus notes outstanding as of June 30, 2016 and December 31, 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 six months ended June 30, 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 $210 million and $231 million as of June 30, 2016 and December 31, 2015, respectively.

Pacific Life has $150 million of surplus notes outstanding as of June 30, 2016 and December 31, 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 $37 million and $40 million as of June 30, 2016 and December 31, 2015, respectively.

The NE DOI approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $450 million. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on February 5 and August 5 at a fixed annual rate of 6.0%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on February 5, 2020. The carrying amount outstanding as of June 30, 2016 and December 31, 2015 was $450 million.

The NE DOI approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $500 million with net cash proceeds of $494 million. The original issue discount of $6 million is being amortized over the life of this surplus note. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on January 25 and July 25 at a fixed annual rate of 5.125%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on January 25, 2043. The carrying amount outstanding as of June 30, 2016 and December 31, 2015 was $494 million.

In November 2015, Pacific Life Reinsurance Company II Limited (PLRC), an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific Life, entered into a promissory note with Pacific LifeCorp to borrow up to $50 million. As of June 30, 2016 and December 31, 2015, $15 million was outstanding on the note with an interest rate of 4.0% and 3.8%, respectively, and matures on December 31, 2017.

ACG enters into various secured loans that are guaranteed by the Ex-Im or by the ECA. Interest on these loans is payable quarterly and ranged from 0.9% to 3.9% as of June 30, 2016 and 0.6% to 3.9% as of December 31, 2015. As of June 30, 2016, $1,238 million was outstanding on these loans with maturities ranging from 2016 to 2024. As of December 31, 2015, $1,342 million was outstanding on these loans. These loans are recourse to ACG. See Note 5 for amounts 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 June 30, 2016 and 1.2% to 7.2% as of December 31, 2015. As of June 30, 2016, $3,922 million was outstanding on these notes and loans with maturities ranging from 2016 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.

Certain subsidiaries of Pacific Asset Holding LLC, a wholly owned subsidiary of Pacific Life, enter into various real estate property related loans with various third-parties. Interest on these loans accrues at fixed and variable rates and is payable monthly. Fixed rates were 3.6% as of June 30, 2016 and December 31, 2015. The variable rates ranged from 2.0% to 3.2% as of June 30, 2016 and ranged from 1.7% to 2.6% as of December 31, 2015. As of June 30, 2016 and December 31, 2015, there was $274 million and $161 million, respectively, outstanding on these loans with maturities during 2017 through 2021. Included in this amount is $41 million of other VIE debt (Note 5) as of June 30, 2016. All of these loans are secured by real estate properties and are non-recourse to the Company.

As of June 30, 2016 and December 31, 2015, the Company has a secured borrowing of $53 million due to an unrelated third-party. Payments of principal and interest are due monthly with an effective rate of 4.7% that matures on September 1, 2026. The lender's collateral for the amount borrowed is a participation interest in two of the Company's commercial mortgage loans that are secured by real estate property and is non-recourse to the Company.

As of June 30, 2016 and December 31, 2015, the Company has CMBS VIE debt of $1,521 million outstanding (Note 5). 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.

11. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; and model-derived valuations for which all significant inputs are observable market data.

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

The following tables present, by estimated fair value hierarchy level, the Company's financial assets and liabilities that are carried at estimated fair value as of June 30, 2016 and December 31, 2015.

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
June 30, 2016:			*(In Millions)*			
Assets:						
U.S. Government		$60				$60
Obligations of states and political subdivisions		979	$26			1,005
Foreign governments		550	51			601
Corporate securities		34,598	2,067			36,665
RMBS		2,328	40			2,368
CMBS		825	69			894
Collateralized debt obligations			77			77
Other asset-backed securities		756	509			1,265
Total fixed maturity securities	-	40,096	2,839	-	-	42,935
Perpetual preferred securities		68				68
Other equity securities	$16					16
Total equity securities	16	68	-	-	-	84
FVO securities		617				617
Other investments:						
Trading securities	7	232				239
Other investments [2]	106	153	5			264
Other investments measured at NAV [3]						90
Total other investments carried at fair value	113	385	5	-	-	593
Derivatives:						
Foreign currency and interest rate swaps		188		$188	($106)	82
Equity derivatives			145	145	(62)	83
Embedded derivatives			351	351		351
Total derivatives	-	188	496	684	(168)	516
Separate account assets:						
Separate account assets	56,179	114				56,293
Separate account assets measured at NAV [3]						233
Total separate account assets carried at fair value [4]	56,179	114	-	-	-	56,526
Total	$56,308	$41,468	$3,340	$684	($168)	$101,271
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$49		$49	($106)	($57)
Equity derivatives			$12	12	(62)	(50)
Embedded derivatives			2,344	2,344		2,344
Other		1		1		1
Total	-	$50	$2,356	$2,406	($168)	$2,238

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

(1) Netting adjustments represent the impact of offsetting asset and liability positions held with the same counterparty as permitted by guidance for offsetting in the Codification's Derivatives and Hedging Topic.
(2) Excludes investments accounted for under the equity and cost methods of accounting.
(3) In accordance with the Codification's Fair Value Measurement Topic 820-10, certain investments that do not have a readily determinable fair value are measured using the NAV per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the condensed 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 June 30, 2016.

Asset Class	Estimated Fair Value	Redemption Frequency	Initial Lock-Up	Redemption Notice Period	Outstanding Commitment
		($ In Millions)			
Hedge funds	$65	Monthly - 24% Quarterly - 59% Semi-Annually - 4% Annually - 13%	None to 1 year	30 – 92 days	
Private equity funds	25	None	N/A	N/A	$85
Separate account hedge funds	233	Monthly - 30% Quarterly - 53% Semi-Annually - 9% Annually - 8%	None to 7 years	5 – 125 days	
Total assets measured at NAV	$323				$85

LEVEL 3 RECONCILIATION

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

	January 1, 2016	Total Gains or Losses Included in Earnings	Total Gains or Losses Included in OCI	Transfers Into Level 3 (1)	Transfers Out of Level 3 (1)	Purchases	Sales	Settlements	June 30, 2016
					(In Millions)				
Obligations of states and political subdivisions	$29		($3)						$26
Foreign governments	8			$45				($2)	51
Corporate securities	1,620	($8)	72	418	($74)	$129	($63)	(27)	2,067
RMBS	151	(3)	3	27	(122)			(16)	40
CMBS	54		3	12					69
Collateralized debt obligations	65	2	(3)			13			77
Other asset-backed securities	319	1	9	51	(8)	149		(12)	509
Total fixed maturity securities	2,246	(8)	81	553	(204)	291	(63)	(57)	2,839
Other investments	5								5
Derivatives, net: (2)									
Equity derivatives	91	52						(10)	133
Embedded derivatives	(1,379)	(513)				(122)		21	(1,993)
Total derivatives	(1,288)	(461)	-	-	-	(122)	-	11	(1,860)
Total	$963	($469)	$81	$553	($204)	$169	($63)	($46)	$984

	January 1, 2015	Total Gains or Losses Included in Earnings	Total Gains or Losses Included in OCI	Transfers Into Level 3 [1]	Transfers Out of Level 3 [1]	Purchases	Sales	Settlements	June 30, 2015
					(In Millions)				
Obligations of states and political subdivisions	$29		$1						$30
Foreign governments	56		(3)		($26)			($1)	26
Corporate securities	1,816	$10	(55)	$75	(124)	$144		(147)	1,719
RMBS	14		(3)	8	(61)	265		(7)	216
CMBS	4			5		51			60
Collateralized debt obligations	70	1							71
Other asset-backed securities	288	1	(2)	2	(7)	37		(15)	304
Total fixed maturity securities	2,277	12	(62)	90	(218)	497	-	(170)	2,426
Other equity securities	4		3						7
Total equity securities	4	-	3	-	-	-	-	-	7
Trading securities	5				(4)				1
Other investments	5								5
Derivatives, net: [2]									
Equity derivatives	188	79						(105)	162
Embedded derivatives	(1,465)	417				(96)		118	(1,026)
Total derivatives	(1,277)	496	-	-	-	(96)	-	13	(864)
Separate account assets	5				(4)				1
Total	$1,019	$508	($59)	$90	($226)	$401	-	($157)	$1,576

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

(2) Excludes derivative net settlements of ($75) million and ($126) million during the six months ended June 30, 2016 and 2015, respectively, that are recorded in net realized investment gain (loss). Excludes synthetic GIC policy fees of $22 million during the six months ended June 30, 2016 and 2015 that are recorded in net realized investment gain (loss). Excludes embedded derivative policy fees of $81 million and $107 million during the six months ended June 30, 2016 and 2015, respectively, that are recorded in net realized investment gain (loss).

During the six months ended June 30, 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 six months ended June 30, 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:

	Net Investment Income	Net Realized Investment Gain (Loss)	OTTI	Total
Six months ended June 30, 2016:		*(In Millions)*		
Corporate securities	$6		($14)	($8)
RMBS			(3)	(3)
Collateralized debt obligations	2			2
Other asset-backed securities	1			1
Total fixed maturity securities	9	-	(17)	(8)
Equity derivatives		$52		52
Embedded derivatives		(513)		(513)
Total derivatives	-	(461)	-	(461)
Total	$9	($461)	($17)	($469)

	Net Investment Income	Net Realized Investment Gain (Loss)	OTTI	Total
Six months ended June 30, 2015:		*(In Millions)*		
Corporate securities	$11	($1)		$10
Collateralized debt obligations	1			1
Other asset-backed securities	1			1
Total fixed maturity securities	13	(1)	-	12
Equity derivatives		79		79
Embedded derivatives		417		417
Total derivatives	-	496	-	496
Total	$13	$495	-	$508

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.

	Six Months Ended June 30, 2016	2015
	(In Millions)	
Derivatives, net: [1]		
Equity derivatives	$59	$61
Embedded derivatives	(540)	433
Total	($481)	$494

[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 June 30, 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)]	478-479 (478)
Foreign governments	51	Discounted cash flow	Spread [(1)]	151-275 (243)
		Market pricing	Quoted prices [(2)]	113
Corporate securities	2,067	Discounted cash flow	Spread [(1)]	50-1800 (319)
		Collateral value	Collateral value [(3)]	42-131 (95)
		Market pricing	Quoted prices [(2)]	71-111 (94)
RMBS	40	Market pricing	Quoted prices [(2)]	56-102 (85)
CMBS	69	Discounted cash flow	Spread [(1)]	195-615 (314)
			Prepayment rate	0%
			Default rate	0%
			Severity	0%
Collateralized debt obligations	77	Market pricing	Quoted prices [(2)]	18-101 (84)
Other asset-backed securities	509	Discounted cash flow	Spread [(1)]	58-380 (128)
		Market pricing	Quoted prices [(2)]	77-120 (101)
		Cap at call price	Call price	100
Other investments	5	Redemption value	Redemption value [(4)]	100
Equity derivatives	133	Option pricing model	Equity volatility	12% - 42% (18%)
Embedded derivatives [(5)]	(1,993)	Option pricing techniques	Equity volatility	12% - 42%
			Mortality:	
			Ages 0-40	0.01% - 0.18%
			Ages 41-60	0.06% - 0.55%
			Ages 61-120	0.39% - 100%
			Mortality improvement	0% - 1.50%
			Withdrawal utilization	0% - 80%
			Lapse rates	0% - 100%
			Credit standing adjustment	0.45% - 2.14%
Total	$984			

(1) Range and weighted average are presented in basis points over the benchmark interest rate curve and include adjustments attributable to illiquidity premiums, expected duration, structure and credit quality.
(2) Independent third-party quotations were used in the determination of estimated fair value.
(3) Valuation based on the Company's share of estimated fair values of the underlying assets held in the trusts.
(4) Represents FHLB common stock that is valued at the contractual amount that will be received upon redemption.
(5) This liability consists of embedded derivatives from variable annuity GLBs, fixed indexed annuity products and life indexed account insurance products. Since the valuation methodology for the embedded derivatives uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is more representative of the unobservable input used in the valuation.

NONRECURRING FAIR VALUE MEASUREMENTS

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

	Six Months Ended June 30, 2016			Six Months Ended June 30, 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				$11	$5	($6)
Aircraft	$587	$558	($29)	118	96	(22)

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.

AIRCRAFT

The estimated fair value after measurement is based on the current contractual lease payments, the projected future lease payments extended to the end of the aircraft's estimated holding period in its highest and best use configuration and the projected sales prices, or the estimated disposition value. Projected future lease payments are based upon current lease rates for similar aircraft, industry trends, and the estimated holding period. The disposition value reflects an aircraft's estimated residual value or estimated sales price less selling costs. These assets are classified as Level 3.

The Company did not have any other nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of June 30, 2016 and 2015. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

12. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Unrealized Gain (Loss) on Securities Available for Sale, Net [1]	Gain (Loss) on Derivatives	Other, Net	Total Accumulated Other Comprehensive Income (Loss)
		(In Millions)		
Balance, January 1, 2015	$1,292	$82	($12)	$1,362
Change in OCI before reclassifications	(596) [2]	5	(2)	(593)
Income tax (expense) benefit	208	(2)	1	207
Amounts reclassified from AOCI	3	4		7
Income tax benefit	(1)	(1)		(2)
Balance, June 30, 2015	$906	$88	($13)	$981
Balance, January 1, 2016	$620	$85	($17)	$688
Change in OCI before reclassifications	1,642 [2]	(1)	(4)	1,637
Income tax (expense) benefit	(577)		2	(575)
Amounts reclassified from AOCI	11	1		12
Income tax benefit	(4)			(4)
Balance, June 30, 2016	$1,692	$85	($19)	$1,758

(1) See Note 6 for information related to DAC.

(2) Includes allocation of net holding gain (loss) from DAC, unearned revenue reserves and future policy benefits of ($594) million and $419 million for the six months ended June 30, 2016 and 2015, respectively.

13. INCOME TAXES

The provision for income taxes is as follows:

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In Millions)	
Current	$43	$37
Deferred	(3)	63
Total	$40	$100

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:

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In Millions)	
Provision for income taxes at the statutory rate	$88	$161
Separate account dividends received deduction	(34)	(39)
Singapore Transfer		(14)
Low income housing and foreign tax credits	(15)	(10)
Other	1	2
Provision for income taxes	$40	$100

ACG transfers aircraft assets and related liabilities to foreign subsidiaries in Singapore (collectively referred to as the Singapore Transfer). The Singapore Transfer decreases the provision for income taxes primarily due to the reversal of deferred tax liabilities related to basis differences in the aircraft assets transferred. U.S. income taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary.

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 depreciation. The Company intends to file an application for an automatic change in the method of accounting with the Internal Revenue Service (IRS) in 2016 which will eliminate the contingency upon filing. None of the uncertain tax position affects the effective tax rate.

Because this tax contingency would serve to reduce existing net operating loss carryforwards, pursuant to 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 and deletions	
Balance as of June 30, 2016	$58

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

14. 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 universal life, indexed universal life, variable universal life, survivor life, interest sensitive whole life, corporate-owned life insurance and traditional products such as whole life and term life. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial, an association of independently owned and operated insurance and financial producers.

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

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

The Reinsurance segment primarily includes the domestic and international retrocession business, which assumes mortality risks from other life reinsurers. The international retrocession business serves clients primarily in Canada, Europe and Asia.

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

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

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

The Company generates the majority of its revenues and net income from customers located in the U.S. As of June 30, 2016 and December 31, 2015, the Company had foreign investments with an estimated fair value of $11.5 billion and $10.4 billion, respectively. Aircraft leased to foreign customers was $7.1 billion as of June 30, 2016 and December 31, 2015. Revenues derived from any customer or investment did not exceed 10% of consolidated total revenues for the six months ended June 30, 2016 and 2015.

The following is segment information as of and for the six months ended June 30, 2016:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$617	$853		$477		$1,947
Net investment income	568	618	$1	17	$63	1,267
Net realized investment gain (loss)	(4)	(488)		19	36	(437)
OTTI	(8)	(4)			(7)	(19)
Investment advisory fees	12	131			2	145
Aircraft leasing revenue			436			436
Other income	14	101	32	13	1	161
Total revenues	1,199	1,211	469	526	95	3,500
BENEFITS AND EXPENSES						
Policy benefits	347	711		411		1,469
Interest credited	434	204			5	643
Commission expenses	166	8		12		186
Operating expenses	189	224	83	17	45	558
Depreciation of aircraft			169			169
Interest expense	5		125		95	225
Total benefits and expenses	1,141	1,147	377	440	145	3,250
Income (loss) before provision (benefit) for income taxes	58	64	92	86	(50)	250
Provision (benefit) for income taxes	15	(19)	33	30	(19)	40
Net income (loss)	43	83	59	56	(31)	210
Less: net income attributable to noncontrolling interests					(4)	(4)
Net income (loss) attributable to the Company	$43	$83	$59	$56	($35)	$206
Total assets	$39,861	$83,161	$9,121	$1,728	$5,479	$139,350
DAC	1,266	3,334		54		4,654
Separate account assets	7,026	49,500				56,526
Policyholder and contract liabilities	29,070	28,187		943	247	58,447
Separate account liabilities	7,026	49,500				56,526

The following is segment information for the six months ended June 30, 2015:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$591	$691		$463		$1,745
Net investment income	577	610		12	$97	1,296
Net realized investment gain (loss)	5	408	$1		14	428
OTTI	(10)	(4)			(5)	(19)
Investment advisory fees	13	151			20	184
Aircraft leasing revenue			408			408
Other income	11	105	11	5		132
Total revenues	1,187	1,961	420	480	126	4,174
BENEFITS AND EXPENSES						
Policy benefits	336	537		429		1,302
Interest credited	420	183			9	612
Commission expenses	172	683		11		866
Operating expenses	180	237	71	17	58	563
Depreciation of aircraft			169			169
Interest expense	3		114		84	201
Total benefits and expenses	1,111	1,640	354	457	151	3,713
Income (loss) before provision (benefit) for income taxes	76	321	66	23	(25)	461
Provision (benefit) for income taxes	21	72	8	8	(9)	100
Net income (loss)	55	249	58	15	(16)	361
Less: net loss attributable to noncontrolling interests					1	1
Net income (loss) attributable to the Company	$55	$249	$58	$15	($15)	$362
The following is segment information as of December 31, 2015:						
Total assets	$38,504	$80,383	$9,267	$1,550	$5,347	$135,051
DAC	1,462	3,201		56		4,719
Separate account assets	6,978	49,996				56,974
Policyholder and contract liabilities	28,718	25,434		1,000	295	55,447
Separate account liabilities	6,978	49,996				56,974

15. TRANSACTIONS WITH RELATED PARTIES

Pacific Life Fund Advisors LLC, a wholly owned subsidiary of Pacific Life, serves as the investment adviser for the Pacific Select Fund, an investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, and the Pacific Funds Series Trust, the investment vehicle for the Company's mutual fund products. 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 $169 million and $192 million for the six months ended June 30, 2016 and 2015, 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 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 six months ended June 30, 2016 and 2015, PSD received $57 million and $67 million, respectively, in service and other fees from the Pacific Select Fund and Pacific Funds Series Trust, which are recorded in other income.

The Company’s structured settlement transactions are typically designed such that an affiliated assignment company assumes settlement obligations from external parties in exchange for consideration. The affiliated assignment company then funds the assumed settlement obligations by purchasing annuity contracts from the Company. Consequently, substantially all of the Company’s structured settlement annuities are sold to an affiliated assignment company.

ACG has derivative swap contracts with Pacific LifeCorp as the counterparty. The notional amounts total $748 million and $579 million as of June 30, 2016 and December 31, 2015, respectively. The estimated fair values of the derivatives were net liabilities of $17 million and $22 million as of June 30, 2016 and December 31, 2015, respectively.

16. 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)*:

Twelve Months Ending June 30:	Mortgage Loans	Limited Partnerships	Fixed Maturity Securities and Other Investments	Total
2017	$477	$245	$424	$1,146
2018 through 2019	504	243		747
2020 through 2021	39	143		182
2022 and thereafter		74	2	76
Total	$1,020	$705	$426	$2,151

As of June 30, 2016, ACG had commitments to purchase aircraft scheduled for delivery through 2021. All of these commitments arise from fixed price purchase agreements with Boeing, Airbus and other third parties, and include adjustments for inflation. As of June 30, 2016, the aggregate estimated total remaining payments (including adjustments for certain contractual escalation provisions) total $5,918 million and are due as follows:

- up to $812 million in less than one year,
- an additional $2,680 million in one to three years,
- an additional $2,200 million in three to five years, and
- an additional $226 million thereafter.

As of June 30, 2016, deposits related to these agreements totaled $324 million and are included in other assets.

Pacific Life has reinsurance agreements with Pacific Life Reinsurance (Barbados) Ltd. (PLRB), an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific LifeCorp. The underlying reinsurance is comprised of coinsurance and yearly renewable term (YRT) treaties. Pacific Life retroceded the majority of the underlying YRT U.S. treaties on a 100% coinsurance with funds withheld basis to PLRB (PLRB Agreement). The PLRB Agreement is accounted for under deposit accounting for U.S. GAAP and as reinsurance under statutory accounting principles. The statutory accounting reserve credit is supported by cash, funds withheld at Pacific Life and a $407 million letter of credit issued to PLRB by highly rated third-party banks for the benefit of Pacific Life, which was renewed in August 2016 and expires August 2021. In connection with the acquisition and reinsurance arrangements between Pacific Life and PLRB, Pacific LifeCorp entered into a capital maintenance agreement and has also agreed to honor PLRB’s obligations to the letter of credit provider in the event of default.

The Company entered into an agreement with PLR to guarantee the performance of reinsurance obligations of PLR and Pacific Life Re (Australia) Pty Limited (PLRA), a wholly owned indirect subsidiary of Pacific LifeCorp. 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 condensed consolidated financial statements.

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

Pacific Life has a commitment to provide funds, on Pacific LifeCorp’s behalf, of up to 100 million pound sterling to PLR. This commitment is secondary to Pacific LifeCorp and is contingent on the nonperformance by Pacific LifeCorp. Management believes that additional obligations, if any, related to this commitment are not likely to have a material adverse effect on the Company’s condensed 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 condensed consolidated financial statements. The Company believes adequate provision has been made in its condensed 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 condensed 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 condensed consolidated financial statements.

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

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

See Note 9 for discussion of contingencies related to derivative instruments.

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