NATIONWIDE FINANCIAL SERVICES, INC. AND SUBSIDIARIES

2015 Consolidated Financial Statements

NATIONWIDE FINANCIAL SERVICES, INC. AND SUBSIDIARIES

FOR THE YEAR ENDED DECEMBER 31, 2015

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KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Independent Auditors' Report

The Board of Directors and Shareholder
Nationwide Financial Services, Inc.:

We have audited the accompanying consolidated financial statements of Nationwide Financial Services, Inc. and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nationwide Financial Services, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Columbus, Ohio
February 23, 2016

NATIONWIDE FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in millions, except for share and per share amounts)	December 31, 2015	December 31, 2014
Assets		
Investments:		
Fixed maturity securities, available-for-sale	$ 39,613	$ 37,501
Mortgage loans, net of allowance	10,163	8,757
Policy loans	993	992
Short-term investments	785	972
Other investments	3,411	3,413
Total investments	$ 54,965	$ 51,635
Cash and cash equivalents	181	169
Accrued investment income	496	687
Deferred policy acquisition costs	5,200	4,063
Goodwill	284	284
Other assets	2,535	5,182
Separate account assets	87,238	88,076
Total assets	$ 150,899	$ 150,096
Liabilities and equity		
Liabilities		
Future policy benefits and claims	$ 45,397	$ 40,730
Short-term debt	786	309
Long-term debt	2,098	2,630
Customer bank deposits	4,774	4,851
Other liabilities	2,218	5,488
Separate account liabilities	87,238	88,076
Total liabilities	$ 142,511	$ 142,084
Shareholder's equity		
Common stock ($0.01 par value; authorized, issued, & outstanding - 100 shares)	$ -	$ -
Additional paid-in capital	1,825	1,825
Retained earnings	5,544	4,476
Accumulated other comprehensive income	375	1,071
Total shareholder's equity	$ 7,744	$ 7,372
Noncontrolling interests	644	640
Total equity	$ 8,388	$ 8,012
Total liabilities and equity	$ 150,899	$ 150,096

See accompanying notes to consolidated financial statements.

NATIONWIDE FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Year ended December 31,	
(in millions)	2015	2014
Revenues		
Policy charges	$ 2,216	$ 2,065
Premiums	786	831
Net investment income	2,186	2,079
Net realized investment gains (losses), including other-than-temporary impairment losses	84	(1,074)
Other revenues	673	688
Total revenues	$ 5,945	$ 4,589
Benefits and expenses		
Interest credited to policyholder account values	$ 1,128	$ 1,138
Benefits and claims	1,662	1,502
Amortization of deferred policy acquisition costs	68	207
Other expenses, net of deferrals	1,802	1,768
Total benefits and expenses	$ 4,660	$ 4,615
Income (loss) before federal income taxes and noncontrolling interests	$ 1,285	$ (26)
Federal income tax expense (benefit)	313	(110)
Net income	$ 972	$ 84
Noncontrolling interest adjustment for consolidated net expense, net of tax	96	94
Net income attributable to Nationwide Financial Services, Inc.	$ 1,068	$ 178

See accompanying notes to consolidated financial statements.

NATIONWIDE FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(in millions)	Year ended December 31, 2015	2014
Net income	$ 972	$ 84
Other comprehensive (loss) income, net of tax		
Changes in:		
Net unrealized (losses) gains on available-for-sale securities	$ (739)	$ 441
Other	43	26
Total other comprehensive (loss) income, net of tax	$ (696)	$ 467
Total comprehensive income	$ 276	$ 551
Noncontrolling interest adjustment for consolidated net expense, net of tax	96	94
Total comprehensive income attributable to Nationwide Financial Services, Inc.	$ 372	$ 645

See accompanying notes to consolidated financial statements.

Consolidated Statements of Equity

(in millions)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total shareholder's equity	Non-controlling interest	Total equity
Balance as of December 31, 2013	$ -	$ 1,825	$ 4,298	$ 604	$ 6,727	$ 680	$ 7,407
Comprehensive income (loss):							
Net income (loss)	$ -	$ -	$ 178	$ -	$ 178	$ (94)	$ 84
Other comprehensive income	-	-	-	467	467	-	467
Total comprehensive income (loss)	$ -	$ -	$ 178	$ 467	$ 645	$ (94)	$ 551
Change in noncontrolling interests	-	-	-	-	-	54	54
Balance as of December 31, 2014	$ -	$ 1,825	$ 4,476	$ 1,071	$ 7,372	$ 640	$ 8,012
Comprehensive income (loss):							
Net income (loss)	$ -	$ -	$ 1,068	$ -	$ 1,068	$ (96)	$ 972
Other comprehensive (loss)	-	-	-	(696)	(696)	-	(696)
Total comprehensive income (loss)	$ -	$ -	$ 1,068	$ (696)	$ 372	$ (96)	$ 276
Change in noncontrolling interests	-	-	-	-	-	100	100
Balance as of December 31, 2015	$ -	$ 1,825	$ 5,544	$ 375	$ 7,744	$ 644	$ 8,388

See accompanying notes to consolidated financial statements.

NATIONWIDE FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year ended December 31,	
(in millions)	2015	2014
Cash flows from operating activities		
Net income	$ 972	$ 84
Adjustments to net income:		
Net realized investment (gains) losses, including other-than-temporary impairment losses	(84)	1,074
Interest credited to policyholder account values	1,128	1,138
Capitalization of deferred policy acquisition costs	(870)	(685)
Amortization of deferred policy acquisition costs	68	207
Amortization and depreciation	138	154
Deferred tax expense (benefit)	230	(146)
Changes in:		
Policy liabilities	(249)	(420)
Derivatives, net	(141)	(180)
Other, net	(396)	(124)
Net cash provided by operating activities	$ 796	$ 1,102
Cash flows from investing activities		
Proceeds from maturities of available-for-sale securities	$ 3,274	$ 3,280
Proceeds from sales of available-for-sale securities	540	1,273
Purchases of available-for-sale securities	(7,622)	(5,946)
Proceeds from repayments and sales of mortgage loans	1,491	1,169
Issuances and purchases of mortgage loans	(2,898)	(2,216)
Net sales (purchases) of short-term investments	187	(515)
Collateral received, net	47	398
Net change in consumer lending products	152	(1,362)
Other, net	(145)	(99)
Net cash used in investing activities	$ (4,974)	$ (4,018)
Cash flows from financing activities		
Net change in short-term debt	$ 477	$ (79)
Proceeds from issuance of long-term debt	-	799
Repayments of long-term debt	(532)	(58)
Investment and universal life insurance product deposits	8,224	6,037
Investment and universal life insurance product withdrawals	(3,884)	(4,095)
Net change in customer bank deposits	(77)	348
Other, net	(18)	(6)
Net cash provided by financing activities	$ 4,190	$ 2,946
Net increase in cash and cash equivalents	$ 12	$ 30
Cash and cash equivalents at beginning of year	169	139
Cash and cash equivalents at end of year	$ 181	$ 169

See accompanying notes to consolidated financial statements.

(1) Nature of Operations

Nationwide Financial Services, Inc. ("NFS," or collectively with its subsidiaries, "the Company") is the holding company for Nationwide Life Insurance Company ("NLIC") and other companies that comprise the life insurance, retirement savings and other financial operations of the Nationwide group of companies. NFS is incorporated in Delaware and maintains its principal executive offices in Columbus, Ohio.

The Company is a leading provider of long-term savings and retirement products in the United States ("U.S."). The Company develops and sells a diverse range of products and services including individual annuities, private and public sector group retirement plans, investment products sold to institutions, life insurance and advisory services. The Company also provides a wide range of banking products and services through Nationwide Bank, a wholly-owned subsidiary of the Company, and mutual funds through Nationwide Funds Group.

The Company sells its products through a diverse distribution network. Unaffiliated entities that sell the Company's products to their own customer bases include independent broker-dealers, financial institutions, wirehouse and regional firms, pension plan administrators and life insurance specialists. Representatives of the Company that market products directly to a customer base include Nationwide Retirement Solutions, Inc. ("NRS"), an indirect wholly-owned subsidiary, and Nationwide Financial Network producers, which includes the agency distribution force of the Company's ultimate majority parent company, Nationwide Mutual Insurance Company ("NMIC"). The Company believes its broad range of competitive products, strong distributor relationships and diverse distribution network position it to compete effectively under various economic conditions.

As of December 31, 2015 and 2014, the Company did not have a significant concentration of financial instruments in a single investee, industry or geographic region. Also, the Company did not have a concentration of business transactions with a particular customer, lender, distribution source, market or geographic region in which a single event could cause a severe impact on the Company's financial position.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of NFS and companies in which NFS directly or indirectly has a controlling financial interest. The consolidated financial statements include majority-owned subsidiaries and consolidated variable interest entities ("VIEs"). All intercompany accounts and transactions have been eliminated.

Use of Estimates

The Company's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of the consolidated financial statements in accordance with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates include the balance and amortization of deferred policy acquisition costs ("DAC"), legal and regulatory reserves, certain investment and derivative valuations, future policy benefits and claims including the valuation of embedded derivatives resulting from living benefit guarantees on variable annuity contracts expected to net settle, goodwill, provision for income taxes and valuation of deferred tax assets. Actual results could differ significantly from those estimates.

Revenues and Benefits

Investment and universal life insurance products. Investment products are long-duration contracts that do not subject the Company to significant risk arising from mortality (the incidence of death) or morbidity (the incidence of disability resulting from disease or physical impairment). These include variable and fixed deferred annuity contracts in the accumulation phase with individuals and groups, as well as certain annuities without life contingencies. Universal life insurance products include long-duration insurance contracts that do not have fixed or guaranteed terms. These include universal life insurance, variable universal life insurance, corporate-owned life insurance ("COLI"), bank-owned life insurance ("BOLI") and other interest-sensitive life insurance policies. Revenues for investment products and universal life insurance products consist of net investment income, surrender charges and other policy charges earned and assessed against policy account balances during the period. Policy charges are assessed on a daily or monthly basis and are recognized as revenue when assessed and earned. Assessments for services provided in future periods are recorded as unearned revenue and recognized as revenue over the periods benefited. Surrender charges are recognized as revenue upon surrender of a contract in accordance with contractual terms. Policy benefits and claims that are charged to expense include interest credited to policyholder accounts and benefits and claims incurred in the period in excess of related policyholder accounts.

Traditional life insurance products. Traditional life insurance products include those products with fixed and guaranteed terms, primarily consisting of whole life insurance, term life insurance and certain annuities with life contingencies. Premiums for traditional life insurance products are generally recognized as revenue when due. For certain annuities with life contingencies, any excess of gross premium over the net premium is deferred and recognized with the amount of expected future benefits. Benefits and expenses are associated with earned premiums so that profits are recognized over the life of the contract. This association is accomplished through the provision for future policy benefits and the deferral and amortization of policy acquisition costs.

Future Policy Benefits and Claims

Investment and universal life insurance products. The Company calculates its liability for future policy benefits and claims for investment products in the accumulation phase and for universal life insurance policies at the policy accrued account balance, which represents participants' net deposits adjusted for investment performance, interest credited and applicable contract charges.

The Company offers guarantees which can include a return of no less than the total deposits made on the contract less any customer withdrawals, total deposits made on the contract less any customer withdrawals plus a minimum return, or the highest contract value on a specified anniversary date minus any customer withdrawals following the contract anniversary. These guarantees can also include benefits payable in the event of death, upon annuitization, upon periodic withdrawal or at specified dates during the accumulation period. Refer to Note 4 for further discussion of these guarantees.

As part of its valuation procedures, the Company makes an assumption of the expected utilization of guarantee benefits by participants. Guarantees that include a benefit that is wholly life contingent or is expected to be exercised upon annuitization are accounted for as insurance liabilities that accumulate over time. Guarantees that are expected to be exercised using a net settlement option are accounted for as embedded derivatives, which are required to be separated from, and valued apart from, the host variable annuity contracts.

Guarantees on variable annuity and fixed annuity products accounted for as insurance liabilities primarily include guaranteed minimum death benefits ("GMDB") and certain guaranteed living withdrawal benefits ("GLWB"). Liabilities for these guarantees are calculated by multiplying the current benefit ratio by the cumulative assessments recorded from contract inception through the balance sheet date, less the cumulative guaranteed benefit payments plus interest. The Company annually evaluates its experience and assumptions and adjusts the benefit ratio as appropriate. If experience or assumption changes result in a new benefit ratio, the reserves are adjusted to reflect the changes, with a related charge or credit to benefits and claims in the period of evaluation. Determination of the expected benefit payments and assessments are based on a range of scenarios and assumptions, including those related to market rates of return and volatility, contract surrenders and mortality experience. The accounting for these guarantees impacts estimated gross profits used to calculate the balance and amortization of DAC and other expenses. Refer to Note 4 for further discussion of these guarantees.

Certain guaranteed minimum accumulation benefits ("GMAB") and the GLWB that are expected to net settle on variable annuity products represent embedded derivatives which are held at fair value and include the present value of attributed fees. Subsequent changes in the fair value of the embedded derivatives are recognized in earnings as a component of net realized investment gains and losses. The fair value of the embedded derivatives is calculated based on a combination of capital market and actuarial assumptions. Projections of cash flows inherent in the valuation of the embedded derivatives incorporate numerous, unobservable assumptions including, but not limited to, mortality, lapse rates, index volatility, benefit utilization and discounting. Benefit utilization includes a wait period (the number of years the policyholder is assumed to wait prior to beginning withdrawals once eligible) and efficiency of benefit utilization (the percent of the maximum permitted withdrawal that a policyholder takes). Discounting includes liquidity and non-performance risk (the risk that the liability will not be fulfilled) and affects the value at which the liability is transferred. The Company derives these inputs, which vary widely by product, attained age, policy duration, benefits in the money and the existence of surrender charges, from experience and industry data.

The Company offers certain indexed life insurance and annuity products for which the policyholders' interest credits are based on market performance with caps and floors. The interest credits represent embedded derivatives within the insurance contract and therefore are required to be separated, and valued apart from, the host contracts. The embedded derivatives are held at fair value. Subsequent changes in the fair value of the embedded derivatives are recognized in earnings as a component of interest credited. The fair value of the embedded derivatives is calculated based on a combination of capital market and actuarial assumptions. Projections of cash flows inherent in the valuation of the embedded derivatives incorporate numerous assumptions including, but not limited to, mortality, lapse rates and index volatility.

The assumptions used to calculate the fair value of embedded derivatives are reviewed as part of an annual comprehensive study of assumptions. Quarterly, consideration is given as to whether adjustments to these assumptions are necessary.

The Company offers certain universal life and variable universal life insurance products with no-lapse guarantees. Liabilities for these guarantees are calculated by multiplying the current benefit ratio by the cumulative assessments recorded from contract inception through the balance sheet date, less the cumulative guaranteed benefit payments plus interest. The Company annually evaluates its experience and assumptions and adjusts the benefit ratio as appropriate. If experience or assumption changes result in a new benefit ratio, the reserves are adjusted to reflect the changes with a related charge or credit to other benefits and claims in the period of evaluation. Determination of the expected benefit payments and assessments are based on a range of scenarios and assumptions, including those related to market rates of return and volatility, contract surrenders and mortality experience. The accounting for these guarantees impacts estimated gross profits used to calculate the balance and amortization of DAC and other expenses. Refer to Note 4 for further discussion of these guarantees.

Traditional life and other insurance products. The process of calculating reserve amounts for traditional life insurance products involves the use of a number of assumptions, including those related to persistency (the percentage of insurance policies remaining in-force from year to year), mortality, morbidity, interest rates (the rates expected to be paid or received on financial instruments) and certain other expenses.

The liability for future policy benefits and claims for traditional life insurance policies was determined using the net level premium method, with weighted average interest rates of 6.6% and estimates of mortality, morbidity, investment yields and persistency that were used or being experienced at the time the policies were issued, with a provision for adverse deviation.

The liability for future policy benefits for certain annuities with life contingencies was calculated using the present value of future benefits and certain expenses, discounted using weighted average interest rates of 4.7% with a provision for adverse deviation.

The Company issues fixed and floating rate funding agreements to the Federal Home Loan Bank of Cincinnati (“FHLB”). The liability for such funding agreements is recorded in future policy benefits and claims. The amount of collateralized funding agreements outstanding with the FHLB as of December 31, 2015 and 2014 was $2.3 billion and $1.8 billion, respectively. In connection with an FHLB requirement for funding agreements, the Company held $46 million and $35 million of FHLB stock as of December 31, 2015 and 2014, respectively.

Reinsurance Ceded

The Company cedes insurance to other companies in order to limit potential losses and to diversify its exposures. Such agreements do not relieve the original insurer from its primary obligation to the policyholder in the event the reinsurer is unable to meet the obligations it has assumed. Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from the respective income and expense accounts. Assets and liabilities related to reinsurance ceded are reported in the consolidated balance sheets on a gross basis, separately from the related future policy benefits and claims of the Company.

Deferred Policy Acquisition Costs

The Company has deferred certain acquisition costs that are directly related to the successful acquisition of new and renewal insurance and investment contracts. The methods and assumptions used to amortize and assess recoverability of the DAC balance depend on the type of product.

Investment and universal life insurance products. For certain investment and universal life insurance products, DAC is amortized with interest over the lives of the policies in relation to the present value of estimated gross profits, which is determined primarily from projected interest margins, policy charges and net realized investment gains and losses, less policy benefits and other expenses. The DAC asset related to investment and universal life insurance products is adjusted to reflect the impact of unrealized gains and losses on available-for-sale securities, with the corresponding adjustment recorded in accumulated other comprehensive income (“AOCI”). This adjustment to DAC represents the change in amortization that would have been required as a charge or credit to earnings had such unrealized amounts been realized. DAC for investment and universal life insurance products is subject to recoverability testing in the year of policy issuance, and DAC for universal life insurance products is also subject to loss recognition testing at the end of each reporting period.

The assumptions used in the estimation of gross profits are based on the Company's current best estimates of future events and are reviewed as part of an annual comprehensive study of assumptions. The most significant assumptions that are involved in the estimation of future gross profits include future net general and separate account investment performance, surrender/lapse rates, interest margins, renewal premiums and mortality. Quarterly, consideration is given as to whether adjustments to these assumptions are necessary. The Company uses a reversion to the mean process to determine the assumption for the future net separate account investment performance. This process assumes different performance levels over the next three years, such that the separate account mean return, measured from the anchor date to the end of the life of the product, equals the long-term assumption. The Company's long-term assumptions for net separate account investment performance consist of assumed gross returns of 10.5% for equity funds and 5.0% for fixed funds.

Changes in assumptions can have a significant impact on the amount of DAC reported for investment and universal life insurance products and on their related amortization patterns. In the event actual experience differs from assumptions or future assumptions are revised, the Company will record an increase or decrease in DAC amortization expense, which could be significant.

Traditional life insurance products. DAC is amortized with interest over the premium-paying period of the related policies in proportion to premium revenue recognized. These assumptions are consistent with those used in the calculation of liabilities for future policy benefits at issuance. DAC is evaluated for recoverability in the year of policy issuance, and loss recognition testing is conducted each reporting period.

Refer to Note 5 for discussion regarding DAC amortization and related balances.

Investments

Available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported as a separate component of other comprehensive income, net of adjustments for DAC, future policy benefits and claims, policyholder dividend obligations and deferred federal income taxes. Realized gains and losses on sales of available-for-sale securities are recognized in income based on the specific identification method. Interest and dividend income is recognized when earned.

As of December 31, 2015 and 2014, 99% of fixed maturity securities were priced using externally sourced data. Independent pricing services are most often utilized (86% and 88% as of December 31, 2015 and 2014, respectively) to determine the fair value of securities for which market quotations are available. For these securities, the Company obtains the pricing services' methodologies, pricing from additional sources, and classifies the investments accordingly in the fair value hierarchy.

A corporate pricing matrix is used in valuing certain corporate debt securities. The corporate pricing matrix was developed using publicly and privately available spreads for privately placed corporate securities with varying weighted average lives and credit quality ratings. The weighted average life and credit quality rating of a particular fixed maturity security to be priced using the corporate pricing matrix are important inputs into the model and are used to determine a corresponding spread that is added to the appropriate U.S. Treasury yield to create an estimated market yield for that security. The estimated market yield and other relevant factors are then used to estimate the fair value of the particular security.

Non-binding broker quotes are also utilized to determine the fair value of certain fixed maturity securities when deemed appropriate or when quotes are not available from independent pricing services or a corporate pricing matrix. These securities, consisting primarily of private placement corporate bonds, are classified with the lowest priority in the fair value hierarchy as only one broker quote is ordinarily obtained, the investment is not traded on an exchange, the pricing is not available to other entities and/or the transaction volume in the same or similar investments has decreased. Inputs used in the development of prices are not provided to the Company by the brokers, as the brokers often do not provide the necessary transparency into their quotes and methodologies. At least annually, the Company performs reviews and tests to ensure that quotes are a reasonable estimate of the investments' fair value. Price movements of broker quotes are subject to validation and require approval from the Company's management. Management uses its knowledge of the investment and current market conditions to determine if the price is indicative of the investment's fair value.

When the collectability of contractual interest payments on fixed maturity securities is considered doubtful, such securities are placed in non-accrual status and any accrued interest is excluded from investment income. These securities are not restored to accrual status until the Company determines that future payment of principal and interest is probable.

The Company has entered into securities lending agreements with a custodial bank whereby eligible securities are loaned to third parties, primarily major brokerage firms. These transactions are used to generate additional income in the securities portfolio. The Company is entitled to receive from the borrower any payments of interest and dividends received on loaned securities during the loan term. The agreements require a minimum of 102% of the fair value of the loaned securities to be held as collateral. Cash collateral is invested by the custodial bank in investment-grade securities, which are included in the total investments of the Company. Additionally, the Company may receive non-cash collateral, which would be recorded off-balance sheet. As of December 31, 2015 and December 31, 2014, the fair value of the securities received as collateral and recorded off balance sheet is $167 million and $0, respectively. The Company recognizes loaned securities in available-for-sale investments. A securities lending payable is recorded in other liabilities for the amount of cash collateral received. Net income received from securities lending activities is included in net investment income. As of December 31, 2015 and 2014, the fair value of loaned securities was $389 million and $254 million, respectively.

For investments in certain residential and commercial mortgage-backed securities, the Company recognizes income and amortizes discounts and premiums using the effective-yield method, based on prepayment assumptions and the estimated economic life of the securities. When actual prepayments differ significantly from estimated prepayments, the effective-yield is recalculated to reflect actual payments to date and anticipated future payments. Any resulting adjustment is included in net investment income in the period the estimates are revised. All other investment income is recorded using the effective-yield method without anticipating the impact of prepayments.

The Company periodically reviews its available-for-sale securities to determine if any decline in fair value to below amortized cost is other-than-temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time a security has been in an unrealized loss position, the severity of the unrealized loss, reasons for the decline in value and expectations for the amount and timing of a recovery in fair value.

In assessing corporate debt securities for other-than-temporary impairment, the Company evaluates the ability of the issuer to meet its debt obligations, the value of the company or specific collateral securing the debt, the Company's intent to sell the security and whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost basis. The Company evaluates U.S. government, agencies and obligations of states and political subdivisions securities for other-than-temporary impairment by examining similar characteristics.

Mortgage-backed securities are assessed for impairment using default estimates based on loan level data, where available. Where loan level data is not available, a proxy based on collateral characteristics is used. The impairment assessment considers loss severity as a function of multiple factors, including unpaid balance, interest rate, mortgage insurance ratios, assessed property value at origination, change in property value, loan-to-value ("LTV") ratio at origination and prepayment speeds. Cash flows generated by the collateral are then utilized, along with consideration of the instrument's position in the overall structure, to determine cash flows associated with the security.

Certain asset-backed securities are assessed for impairment using expected cash flows based on various inputs, including default estimates based on the underlying corporate securities, historical and forecasted loss severities or other market inputs when recovery estimates are not feasible. When the collateral is regional bank and insurance company trust preferred securities, default estimates used to estimate cash flows are based on U.S. Bank Rating service data and broker research.

The Company evaluates its intent to sell on an individual security basis. Other-than-temporary impairment losses on securities when the Company does not intend to sell the security and it is not more likely than not it will be required to sell the security prior to recovery of the security's amortized cost basis are bifurcated, with the credit related portion of the impairment loss being recognized in earnings and the non-credit related portion of the impairment loss and any subsequent changes in the fair value of those debt securities being recognized in other comprehensive income, net of applicable taxes and other offsets. To estimate the credit related portion of an impairment loss recognized in earnings, the Company considers the present value of the cash flows. To the extent that the present value of cash flows generated by a debt security is less than the amortized cost, an other-than-temporary impairment is recognized through earnings.

It is possible that further declines in fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments, which could be significant.

The Company invests in fixed maturity securities that could qualify as VIEs, including corporate securities, mortgage-backed securities and asset-backed securities. The Company is not the primary beneficiary of these securities as the Company does not have the power to direct the activities that most significantly impact the entities' performance. The Company's potential loss is limited to the carrying values of these securities. There are no liquidity arrangements, guarantees or other commitments by third parties that affect the fair value of the Company's interest in these assets.

Mortgage loans, net of allowance. The Company holds commercial and residential mortgage loans that are collateralized by properties throughout the U.S. Commercial mortgage loans are further segregated into the following classes based on the unique risk profiles of the underlying property types: office, industrial, retail, apartment, hotel and other. Mortgage loans held-for-investment are held at amortized cost less a valuation allowance.

As part of the underwriting process, specific guidelines are followed to ensure the initial quality of a new mortgage loan. Third-party appraisals are obtained to support loaned amounts, as the loans are usually collateral dependent.

The collectability and value of a mortgage loan are based on the ability of the borrower to repay and/or the value of the underlying collateral. Many of the Company's commercial mortgage loans are structured with balloon payment maturities, exposing the Company to risks associated with the borrowers' ability to make the balloon payment or refinance the property.

Mortgage loans require a loan-specific reserve when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When management determines that a loan requires a loan-specific reserve, a provision for loss is established equal to the difference between the carrying value and either the fair value of the collateral less costs to sell or the present value of expected future cash flows, discounted at the loan's market interest rate. Loan-specific reserve charges are recorded in net realized investment gains and losses. In the event a loan-specific reserve charge is reversed, the recovery is also recorded in net realized investment gains and losses.

In addition to the loan-specific reserves, the Company maintains a non-specific reserve based primarily on loan surveillance categories and property type classes, which reflects management's best estimates of probable credit losses inherent in the portfolio of loans without specific reserves as of the balance sheet date. Management's periodic evaluation of the adequacy of the non-specific reserve is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect a borrower's ability to repay, the estimated value of the underlying collateral, the composition of the loan portfolio, current economic conditions and other relevant factors. Non-specific reserve changes are recorded in net realized investment gains and losses.

Management evaluates the credit quality of individual commercial mortgage loans and the portfolio as a whole through a number of loan quality measurements, including but not limited to LTV and debt service coverage ("DSC") ratios. The LTV ratio is calculated as a ratio of the amortized cost of a loan to the estimated value of the underlying collateral. DSC is the amount of cash flow generated by the underlying collateral of the mortgage loan available to meet periodic interest and principal payments of the loan. This process identifies commercial mortgage loans representing the lowest risk profile and lowest potential for loss and those representing the highest risk profile and highest potential for loss. These factors are updated and evaluated at least annually.

To facilitate the monitoring of credit quality for residential mortgage loans, and for purposes of determining an appropriate valuation allowance for these loans, the Company utilizes the following categories of credit grades: performing and not graded, pass, special mention, substandard, doubtful and loss. These categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of the loan and updated periodically thereafter.

Interest income on performing mortgage loans is recognized over the life of the loan using the effective-yield method. Loans in default or in the process of foreclosure are placed on non-accrual status. Interest received on non-accrual status mortgage loans is included in net investment income in the period received. Loans are restored to accrual status when the principal and interest is current and it is determined the future principal and interest payments are probable or the loan is modified. Loans are considered delinquent when contractual payments are 90 days past due.

Policy loans. Policy loans, which are collateralized by the related insurance policy, are held at the outstanding principal balance and do not exceed the net cash surrender value of the policy. As such, no valuation allowance for policy loans is required.

Short-term investments. Short-term investments consist primarily of highly liquid mutual funds and government agency discount notes with maturities of twelve months or less at acquisition. The Company and various affiliates maintain agreements with Nationwide Cash Management Company ("NCMC"), an affiliate, under which NCMC acts as a common agent in handling the purchase and sale of short-term securities for the respective accounts of the participants. Amounts on deposit with NCMC for the benefit of the Company are included in short-term investments on the consolidated balance sheets. The Company carries short-term investments at fair value.

Other investments. Other investments consist primarily of alternative investments in private equity, purchased tax credit funds and partnerships accounted for under the equity method, consumer lending products, trading securities, equity securities, and capital stock with the FHLB. The Company applies mark-to-market accounting to trading securities and recognizes changes in fair value in net realized investment gains and losses.

The Company holds investments in limited partnerships and similar entities including private equity funds, tax credit funds and real estate-related funds. The Company applies the equity method of accounting to these investments as it does not have a controlling financial interest. The Company recognizes the change in equity method investments in net investment income. The Company's unfunded commitments related to these investments were $315 million and $123 million as of December 31, 2015 and 2014, respectively. The carrying values of these investments were $200 million and $142 million as of December 31, 2015 and 2014, respectively.

The Company has sold $1.4 billion and $1.3 billion in Tax Credit Funds to unrelated third parties as of December 31, 2015 and 2014, respectively. The Company has guaranteed after-tax benefits to the third party investors through periods ending in 2031. These guarantees are in effect for periods of approximately 15 years each. The Tax Credit Funds provide a stream of tax benefits to the investors that will generate a yield and return of capital. If the tax benefits are not sufficient to provide these cumulative after-tax yields, the Company must fund any shortfall. The maximum amount of undiscounted future payments that the Company could be required to pay the investors under the terms of the guarantees is $720 million, but the Company does not anticipate making any material payments related to the guarantees. The Company's risks are mitigated in the following ways: (1) the Company has the right to buyout the equity related to the guarantee under certain circumstances, (2) the Company may replace underperforming properties to mitigate exposure to guarantee payments and (3) the Company oversees the asset management of the deals.

In the normal course of business, the Company has relationships with VIEs. If the Company determines that it has a variable interest and is the primary beneficiary, it consolidates the VIE. The Company is the primary beneficiary if the Company has the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and the obligation to absorb losses or receive benefits from the entity that could be potentially significant to the VIE. This determination is based on a review of the entity's contract and other deal-related information, such as the entity's equity investment at risk, decision-making abilities, obligations to absorb economic risks and right to receive economic rewards of the entity. These consolidated VIEs are primarily made up of the Tax Credit Funds discussed above.

Net assets (controlling and noncontrolling interests) of all consolidated VIEs totaled $644 million and $640 million as of December 31, 2015 and 2014, respectively, and are included within the consolidated balance sheets primarily as other investments of $585 million, other assets of $113 million and other liabilities of $67 million as of December 31, 2015, and other investments of $580 million, other assets of $109 million and other liabilities of $75 million as of December 31, 2014. The Company's general credit is not exposed to the creditors or beneficial interest holders of these consolidated VIEs. The results of operations and financial positions of each VIE for which the Company is the primary beneficiary, as well as the corresponding noncontrolling interests, are recorded in the consolidated financial statements. Ownership interests held by unrelated third parties in the consolidated VIEs are presented as noncontrolling interests in the equity section of the consolidated financial statements. Losses attributable to noncontrolling interests are excluded from the net income attributable to the Company on the consolidated statements of operations.

The Company is not required and does not intend to provide financial or other support outside of contractual requirements to any VIE.

The Company has junior subordinated debentures issued to Nationwide Financial Services Capital Trust I ("Trust I"), a related party. The Company is not the primary beneficiary and accordingly has not consolidated Trust I. See Note 10 for further information on the Company's relationship with Trust I.

Derivative Instruments

The Company uses derivative instruments to manage exposures and mitigate risks primarily associated with interest rates, equity markets and foreign currency. These derivative instruments primarily include interest rate swaps, futures contracts and options. Certain features embedded in the Company's indexed products and certain variable annuity contracts require derivative accounting. All derivative instruments are held at fair value and are reflected as other assets or liabilities in the consolidated balance sheets.

The fair value of derivative instruments is determined using various valuation techniques relying predominantly on observable market inputs. These inputs include interest rate swap curves, credit spreads, interest rates, counterparty credit risk, equity volatility and equity index levels. In cases where observable inputs are not available, the Company will utilize non-binding broker quotes to determine fair value, and these instruments are classified accordingly in the fair value hierarchy. Price movements of these broker quotes are subject to validation and require approval from the Company's management. Management uses models to internally value the instruments for comparison to the values received through broker quotes.

For derivatives that are not designated for hedge accounting, the gain or loss on the derivative is recognized in net realized investment gains and losses.

For derivative instruments that are designated and qualify for cash flow hedge accounting, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period or periods that the hedged transaction impacts earnings. The ineffective portion of the derivative's change in value, if any, along with any of the derivative's change in value that is excluded from the assessment of hedge effectiveness, are recorded in net realized investment gains and losses.

The Company's derivative transaction counterparties are generally financial institutions. To reduce the credit risk associated with open contracts, the Company enters into master netting agreements, which permit the closeout and netting of transactions with the same counterparty upon the occurrence of certain events. In addition, the Company attempts to reduce credit risk by obtaining collateral from counterparties. The determination of the need for and the levels of collateral vary based on an assessment of the credit risk of the counterparty. The Company accepts collateral in the forms of cash and marketable securities.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In determining fair value, the Company uses various methods, including market, income and cost approaches.

The Company categorizes its financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety.

The Company categorizes assets and liabilities held at fair value in the consolidated balance sheets as follows:

Level 1. Unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date and mutual funds, where the value per share (unit) is determined and published daily and is the basis for current transactions.

Level 2. Unadjusted quoted prices for similar assets or liabilities in active markets or inputs (other than quoted prices) that are observable or that are derived principally from or corroborated by observable market data through correlation or other means. Primary inputs to this valuation technique may include comparative trades, bid/asks, interest rate movements, U.S. Treasury rates, London Interbank Offered Rate ("LIBOR"), prime rates, cash flows, maturity dates, call ability, estimated prepayments and/or underlying collateral values.

Level 3. Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimates of the assumptions market participants would use at the measurement date in pricing the asset or liability. Consideration is given to the risk inherent in both the method of valuation and the valuation inputs.

The Company reviews its fair value hierarchy classifications for assets and liabilities quarterly. Changes in the observability of significant valuation inputs identified during these reviews may trigger reclassifications. Reclassifications are reported as transfers at the beginning of the period in which the change occurs.

Fair Value Option. The Company assesses the fair value option election for newly acquired assets or liabilities on a prospective basis. There are no material assets or liabilities for which the Company has elected the fair value option.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of less than three months.

Goodwill

In connection with business acquisitions, the Company recognizes goodwill as the excess of the purchase price or fair value of consideration exchanged over the fair values of tangible assets acquired, liabilities assumed and separately identified intangible assets. Goodwill is not amortized, but is evaluated for impairment at the reporting unit level annually. Goodwill of a reporting unit is tested for impairment on an interim basis, in addition to the annual evaluation, if an event occurs or circumstances change which would more likely than not reduce the fair value of a reporting unit below its carrying amount. If a reporting unit's fair value is less than its carrying value, the Company will calculate implied goodwill. Goodwill is impaired at the reporting unit level if its carrying value exceeds the implied value of its goodwill.

The process of evaluating goodwill for impairment requires several judgments and assumptions to be made to determine the fair value of the reporting units, including the method used to determine fair value, discount rates, expected levels of cash flows, revenues and earnings, and the selection of comparable companies used to develop market-based assumptions. The Company performed its 2015 annual impairment test and determined that no impairment was required. As of December 31, 2015 and 2014, there were no accumulated impairments.

Closed Block

In connection with the sponsored demutualization of Provident Mutual Life Insurance Company ("Provident") prior to its acquisition by the Company, Provident established a closed block for the benefit of certain classes of individual participating policies that had a dividend scale payable in 2001. Assets were allocated to the closed block in an amount that produces cash flows which, together with anticipated revenues from closed block business, is reasonably expected to be sufficient to provide for (1) payment of policy benefits, specified expenses and taxes, and (2) the continuation of dividends throughout the life of the Provident policies included in the closed block based upon the dividend scales payable for 2001, if the experience underlying such dividend scales continues.

Assets allocated to the closed block benefit only the holders of the policies included in the closed block and will not revert to the benefit of the Company. No reallocation, transfer, borrowing or lending of assets can be made between the closed block and other portions of the Company's general account, any of its separate accounts, or any affiliate of the Company without the approval of the Pennsylvania Insurance Department and Ohio Department of Insurance ("ODI"). The closed block will remain in effect as long as any policy in the closed block is in force.

If, over time, the aggregate performance of the closed block assets and policies is better than was assumed in funding the closed block, dividends to policyholders will increase. If, over time, the aggregate performance of the closed block assets and policies is less favorable than was assumed in the funding, dividends to policyholders could be reduced. If the closed block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from the Company's assets outside of the closed block, which are general account assets.

The assets and liabilities allocated to the closed block are recorded in the Company's consolidated financial statements on the same basis as other similar assets and liabilities. The carrying amount of closed block liabilities in excess of the carrying amount of closed block assets at the date Provident was acquired by the Company represents the maximum future earnings from the assets and liabilities designated to the closed block that can be recognized in income, for the benefit of stockholders, over the period the policies in the closed block remain in force.

If actual cumulative earnings exceed expected cumulative earnings, the expected earnings are recognized in income. This is because the excess actual cumulative earnings over expected cumulative earnings, which represents undistributed accumulated earnings attributable to policyholders, is recorded as a policyholder dividend obligation. Therefore, the excess will be paid to closed block policyholders as an additional policyholder dividend expense in the future unless it is otherwise offset by future performance of the closed block that is less favorable than originally expected. If actual cumulative performance is less favorable than expected, actual earnings will be recognized in income.

The principal cash flow items that affect the amount of closed block assets and liabilities are premiums, net investment income, purchases and sales of investments, policyholder benefits, policyholder dividends, premium taxes and income taxes. The principal income and expense items excluded from the closed block are management and maintenance expenses, commissions and net investment income and realized gains and losses on investments held outside of the closed block that support the closed block business, all of which enter into the determination of total gross margins of closed block policies. See Note 9 for further disclosure.

Separate Accounts

Separate account assets and liabilities represent contractholders' funds that have been legally segregated into accounts with specific investment objectives. In the separate account, investment income and gains and losses on investments accrue directly to, and investment risk is borne by, the contractholder. Separate account assets are primarily comprised of public, privately-registered and non-registered mutual funds. Separate account assets are recorded at fair value based on the methodology that would be applicable to the underlying assets. The value of separate account liabilities is set to equal the fair value for separate account assets.

Customer Bank Deposits

Customer bank deposits consist of money market deposits, certificates of deposit, savings accounts and demand deposits. The Company carries customer bank deposits at the amount payable on demand.

Federal Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income or loss in the years in which those temporary differences are expected to be recovered or settled. Under this method, the effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce a deferred tax asset to the amount expected to be realized. Interest expense and any associated penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") are recorded as income tax expenses.

The Company provides for federal income taxes based on amounts the Company believes it ultimately will owe. Inherent in the provision for federal income taxes are estimates regarding the deductibility of certain items and the realization of certain tax credits. In the event the ultimate deductibility of certain items or the realization of certain tax credits differs from estimates, the Company may be required to change the provision for federal income taxes recorded in the consolidated financial statements, which could be significant.

Tax reserves are reviewed regularly and are adjusted as events occur that the Company believes impact its liability for additional taxes, such as the lapsing of applicable statutes of limitations, conclusion of tax audits or substantial agreement with taxing authorities on the deductibility/nondeductibility of uncertain items, additional exposure based on current calculations, identification of new issues, release of administrative guidance or rendering of a court decision affecting a particular tax issue. The Company believes its tax reserves reasonably provide for potential assessments that may result from IRS examinations and other tax-related matters for all open tax years.

The Company files with the NMIC consolidated federal income tax return. Prior to 2015, NLIC filed a separate consolidated federal income tax return with its subsidiaries.

Participating Business

Participating business, which refers to policies that participate in profits through policyholder dividends, represented approximately 3% and 4% of the Company's life insurance in force in 2015 and 2014 and 35% of the number of life insurance policies in force in 2015 (37% in 2014). The provision for policyholder dividends was based on the respective year's dividend scales and has been included in future policy benefits and claims in the consolidated balance sheets.

Subsequent Events

The Company evaluated subsequent events through February 23, 2016, the date the consolidated financial statements were issued.

(3) Recently Issued Accounting Standards

Pending Accounting Standards

In May 2015, the FASB issued ASU 2015-07, which amends existing guidance in ASC 820, *Fair Value Measurement*. The amended guidance eliminates the requirement to categorize investments using net asset value as fair value within the fair value hierarchy. The Company will adopt the ASU for interim and annual periods beginning January 1, 2016. The adoption of this guidance will result in changes to disclosures only.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Liabilities*. The amended guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The Company will adopt the ASU for interim and annual periods beginning January 1, 2018. The Company is currently in the process of determining the impact of adoption.

(4) Certain Long-Duration Contracts

Variable Annuity Contracts

The Company provides various forms of guarantees to benefit the related contractholders of variable annuity contracts issued through separate accounts. The Company provides four primary guarantee types: (1) GMDB, (2) GLWB, (3) GMAB and (4) guaranteed minimum income benefits ("GMIB").

The GMDB, offered on variable annuity contracts, provides a specified minimum return upon death. Many of these death benefits are spousal, whereby a death benefit will be paid upon death of the first spouse. The survivor has the option to terminate the contract or continue it by having the death benefit paid into the contract and having a second death benefit paid upon the survivor's death.

The GLWB, primarily offered in the Company's Lifetime Income products, are living benefits that provide for enhanced retirement income security without the liquidity loss associated with annuitization. The withdrawal rates vary based on the age when withdrawals begin and are applied to a benefit base to determine the guaranteed lifetime income amount available to a contractholder. The benefit base is equal to the variable annuity premium at contract issuance and may increase as a result of a feature driven by minimum return and contract duration.

The GMAB, which was offered in the Company's Capital Preservation Plus product, is a living benefit that provides the contractholder with a guaranteed return of deposits, adjusted proportionately for withdrawals, after a specified time period (5, 7 or 10 years) selected by the contractholder at the issuance of the variable annuity contract. In some cases, the contractholder also has the option, after a specified time period, to drop the guarantee and continue the variable annuity contract without the GMAB. In general, the GMAB requires a minimum allocation to guaranteed term options or adherence to limitations required by an approved asset allocation strategy.

The GMIB, which was offered with several variable annuity contracts, is a living benefit that provides the contractholder with a guaranteed annuitization stream of income.

The following table summarizes information regarding variable annuity contracts with guarantees invested in general and separate accounts, as of the dates indicated (a contract may contain multiple guarantees):

	December 31, 2015				December 31, 2014			
(in millions)	General account value	Separate account value	Net amount at risk[1]	Average age[2]	General account value	Separate account value	Net amount at risk[1]	Average age[2]
Contracts with GMDB:								
Return of net deposits	$ 885	$ 24,452	$ 208	66	$ 872	$ 23,079	$ 21	65
Minimum return or anniversary contract value	1,817	31,511	1,133	70	1,918	33,662	292	69
Total contracts with GMDB	$ 2,702	$ 55,963	$ 1,341	68	$ 2,790	$ 56,741	$ 313	68
GLWB Minimum return or anniversary contract value[3]	$ 141	$ 32,187	$ 142	67	$ 135	$ 31,406	$ 195	66
GMAB Return of net deposits[3]	$ 19	$ 496	$ 2	66	$ 43	$ 1,177	$ -	67
GMIB Minimum return or anniversary contract value	$ 46	$ 380	$ 1	67	$ 45	$ 451	$ 1	66

1 Net amount at risk is calculated on a policy-level basis and equals the respective guaranteed benefit less the account value (or zero if the account value exceeds the guaranteed benefit).
2 Represents the weighted average attained age of contractholders at the respective date.
3 Certain prior period amounts related to contracts with a hybrid accumulation/withdrawal benefit have been reclassified to conform with current period presentation.

The following table summarizes the reserve balances for guarantees on variable annuity contracts, as of the dates indicated:

	December 31,	
(in millions)	2015	2014
GMDB	$ 148	$ 76
GLWB[1]	$ 180	$ 185
GMAB[1]	$ -	$ (8)
GMIB	$ 2	$ 1

1 Certain prior period amounts related to contracts with a hybrid accumulation/withdrawal benefit have been reclassified to conform with current period presentation.

During 2015, the Company recognized a net decrease in the liability for future policy benefits and claims in conjunction with the annual comprehensive review of assumptions, primarily related to the Company's assumptions for participant benefit utilization of the net settlement option within the GLWB. The Company changed its estimate to reduce expected utilization of the net settlement option. For the year ended December 31, 2015, the change in estimate resulted in net realized investment gains of $187 million, an increase to benefits and claims of $164 million and lower amortization of deferred policy acquisition costs of $28 million.

Paid claims for GMDBs were $20 million and $11 million for the years ended December 31, 2015 and 2014, respectively. Paid claims for GLWBs, GMABs and GMIBs were immaterial for the years ended December 31, 2015 and 2014.

The following table summarizes the account balances of deferred variable annuity contracts with guarantees invested in separate accounts, as of the dates indicated:

(in millions)	December 31, 2015	December 31, 2014
Mutual funds:		
Bond	$ 5,371	$ 5,280
Domestic equity	46,469	47,316
International equity	3,001	2,969
Total mutual funds	$ 54,841	$ 55,565
Money market funds	1,122	1,176
Total[1]	$ 55,963	$ 56,741

1 Excludes $31.3 billion as of December 31, 2015 and 2014 of separate account assets not related to deferred variable annuity contracts with guarantees, primarily attributable to retirement plan, variable universal life and COLI products.

Fixed Annuity Contracts

The Company offers certain fixed annuity products with GMDBs and GLWBs. As of December 31, 2015 and 2014, the general account value for contracts with GMDBs was $2.7 billion and $351 million, respectively, which includes $1.4 billion and $185 million, respectively, of general account value relating to contracts that also have GLWBs. The net amount at risk and reserve balances on these guarantees were immaterial as of December 31, 2015 and 2014. Paid claims for GMDBs were immaterial for the years ended December 31, 2015 and 2014. There were no paid claims for GLWBs during the years ended December 31, 2015 and 2014.

Universal and Variable Universal Life Insurance Contracts

The Company offers certain universal life and variable universal life insurance products with no-lapse guarantees. These no-lapse guarantees provide that a policy will not lapse so long as the policyholder makes minimum premium payments. The reserve balances on these guarantees were $548 million and $401 million as of December 31, 2015 and 2014, respectively. Paid claims on these guarantees were immaterial for the years ended December 31, 2015 and 2014.

The following table summarizes information regarding universal and variable universal life insurance contracts with no-lapse guarantees invested in general and separate accounts, as of the dates indicated:

(in millions)	General account value	Separate account value	Adjusted insurance in force[1]	Average age[2]
December 31, 2015	$ 2,473	$ 2,053	$ 48,140	51
December 31, 2014	$ 1,954	$ 2,191	$ 41,484	51

1 The adjusted insurance in force is calculated on a policy-level basis and equals the respective guaranteed death benefit less the account value and reinsurance.
2 Represents the weighted average attained age of contractholders at the respective date.

(5) Deferred Policy Acquisition Costs

The following table summarizes changes in the DAC balance, as of the dates indicated:

	December 31,	
(in millions)	2015	2014
Balance at beginning of year	$ 4,063	$ 3,778
Capitalization of DAC	870	685
Amortization of DAC, excluding unlocks	(326)	(397)
Amortization of DAC related to unlocks	258	190
Adjustments to DAC related to unrealized gains and losses on available-for-sale securities	335	(193)
Balance at end of year	$ 5,200	$ 4,063

During 2015, the Company recognized a decrease in DAC amortization of $258 million as a result of the annual comprehensive review of model assumptions and enhancements. The impact was primarily related to revisions made to the Company's economic hedging strategies in conjunction with the change in estimate discussed in Note 4, as well as a decrease in the expected lapse rates for certain variable annuity products.

During 2014, the Company recognized a decrease in DAC amortization of $190 million as a result of the annual comprehensive review of model assumptions and enhancements. The updated assumptions were primarily related to the actual performance of the block of business since the prior year review and the expectations for lapses, partially offset by an update to the Company's long-term assumptions for separate account investment performance.

(6) Investments

Available-for-Sale Securities

The following table summarizes the amortized cost, unrealized gains and losses and fair value of available-for-sale securities, as of the dates indicated:

(in millions)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
December 31, 2015				
Fixed maturity securities:				
U.S. government and agencies	$ 343	$ 59	$ -	$ 402
Obligations of states and political subdivisions	2,174	243	11	2,406
Corporate public securities	23,431	870	758	23,543
Corporate private securities	5,082	203	115	5,170
Residential mortgage-backed securities	4,199	176	45	4,330
Commercial mortgage-backed securities	1,710	40	13	1,737
Asset-backed securities	2,083	19	77	2,025
Total fixed maturity securities	$ 39,022	$ 1,610	$ 1,019	$ 39,613
Equity securities	81	14	4	91
Total available-for-sale securities	$ 39,103	$ 1,624	$ 1,023	$ 39,704
December 31, 2014				
Fixed maturity securities:				
U.S. government and agencies	$ 448	$ 79	$ -	$ 527
Obligations of states and political subdivisions	2,006	323	1	2,328
Corporate public securities	20,043	1,521	121	21,443
Corporate private securities	4,398	286	34	4,650
Residential mortgage-backed securities	5,069	226	48	5,247
Commercial mortgage-backed securities	1,661	81	3	1,739
Asset-backed securities	1,613	28	74	1,567
Total fixed maturity securities	$ 35,238	$ 2,544	$ 281	$ 37,501
Equity securities	49	14	-	63
Total available-for-sale securities	$ 35,287	$ 2,558	$ 281	$ 37,564

The fair value of the Company's available-for-sale securities may fluctuate significantly in response to changes in interest rates, investment quality ratings and credit spreads. The Company has the ability and intent to hold equity securities until recovery. The Company does not have the intent to sell, nor is it more likely than not that it will be required to sell, fixed maturity securities in an unrealized loss position.

The following table summarizes the amortized cost and fair value of fixed maturity securities, by contractual maturity, as of December 31, 2015. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without early redemption penalties.

(in millions)	Amortized cost	Fair value
Fixed maturity securities:		
Due in one year or less	$ 987	$ 992
Due after one year through five years	10,755	11,098
Due after five years through ten years	9,316	9,310
Due after ten years	9,972	10,121
Subtotal	$ 31,030	$ 31,521
Residential mortgage-backed securities	4,199	4,330
Commercial mortgage-backed securities	1,710	1,737
Asset-backed securities	2,083	2,025
Total fixed maturity securities	$ 39,022	$ 39,613

The following table summarizes components of net unrealized gains and losses, as of the dates indicated:

(in millions)	December 31, 2015	December 31, 2014
Net unrealized gains on available-for-sale securities, before adjustments and taxes[1]	$ 601	$ 2,277
Adjustment to DAC and other expense	(33)	(372)
Adjustment to future policy benefits and claims	(16)	(159)
Adjustment to policyholder dividend obligations	(67)	(120)
Deferred federal income tax expense	(156)	(558)
Net unrealized gains on available-for-sale securities	$ 329	$ 1,068

1 Includes net unrealized losses of $20 million and $9 million as of December 31, 2015 and 2014, respectively, related to the non-credit portion of other-than-temporarily impaired securities.

The following table summarizes the change in net unrealized gains and losses reported in accumulated other comprehensive income, for the years ended:

(in millions)	December 31, 2015	December 31, 2014
Balance at beginning of year	$ 1,068	$ 627
Unrealized gains and losses arising during the year:		
Net unrealized (losses) gains on available-for-sale securities before adjustments	(1,691)	951
Non-credit impairments and subsequent changes in fair value of impaired debt securities	(11)	31
Net adjustment to DAC and other expense	339	(196)
Net adjustment to future policy benefits and claims	143	(70)
Net adjustment to policyholder dividend obligations	53	(35)
Related federal income tax benefit (expense)	411	(238)
Unrealized (losses) gains on available-for-sale securities	$ (756)	$ 443
Less: Reclassification adjustment for net (losses) gains realized on available-for-sale securities, net of tax benefit (expense) ($9 and $(2) as of December 31, 2015 and 2014, respectively)	(17)	2
Increase in net unrealized (losses) gains on available-for-sale securities	$ (739)	$ 441
Balance at end of year	$ 329	$ 1,068

The following table summarizes, by asset class, available-for-sale securities in an unrealized loss position based on the amount of time each type of security has been in an unrealized loss position, as well as the related fair value, as of the dates indicated:

	Less than or equal to one year		More than one year		Total
(in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Unrealized losses[1]
December 31, 2015					
Fixed maturity securities:					
Corporate public securities	$ 8,317	$ 457	$ 1,011	$ 301	$ 758
Corporate private securities	1,642	56	418	59	115
Asset-backed securities	898	10	823	67	77
Other	1,615	26	602	43	69
Total fixed maturity securities	12,472	549	2,854	470	1,019
Equity securities	67	4	-	-	4
Total[2]	$ 12,539	$ 553	$ 2,854	$ 470	$ 1,023
December 31, 2014					
Fixed maturity securities:					
Corporate public securities	$ 1,719	$ 64	$ 1,592	$ 57	$ 121
Corporate private securities	589	27	256	7	34
Asset-backed securities	828	7	513	67	74
Other	341	3	935	49	52
Total fixed maturity securities	3,477	101	3,296	180	281
Equity securities	-	-	-	-	-
Total[2]	$ 3,477	$ 101	$ 3,296	$ 180	$ 281

1 As of December 31, 2015 and 2014, there were $450 million and $66 million, respectively, of unrealized losses related to available-for-sale securities with a fair value to amortized cost ratio of less than 80%.

2 Represents 1,164 and 593 of available-for-sale securities in an unrealized loss position as of December 31, 2015 and 2014, respectively.

The Company believes the unrealized losses on these available-for-sale securities represent temporary fluctuations in economic factors that are not indicative of other-than-temporary impairment.

Mortgage Loans, Net of Allowance

The following table summarizes the amortized cost of mortgage loans by portfolio segment, by method of evaluation for credit loss, and the related valuation allowances by type of credit loss, as of the dates indicated:

	December 31, 2015			December 31, 2014		
(in millions)	Commercial	Residential	Total	Commercial	Residential	Total
Amortized cost:						
Loans with non-specific reserves	$ 8,730	$ 1,442	$ 10,172	$ 7,536	$ 1,234	$ 8,770
Loans with specific reserves	19	-	19	17	-	17
Total amortized cost	$ 8,749	$ 1,442	$ 10,191	$ 7,553	$ 1,234	$ 8,787
Valuation allowance:						
Non-specific reserves	$ 23	$ 2	$ 25	$ 22	$ 3	$ 25
Specific reserves	3	-	3	5	-	5
Total valuation allowance	$ 26	$ 2	$ 28	$ 27	$ 3	$ 30
Mortgage loans, net of allowance	$ 8,723	$ 1,440	$ 10,163	$ 7,526	$ 1,231	$ 8,757

The following table summarizes activity in the valuation allowance for mortgage loans, for the years ended:

	December 31, 2015			December 31, 2014		
(in millions)	Commercial	Residential	Total	Commercial	Residential	Total
Balance at beginning of year	$ 27	$ 3	$ 30	$ 35	$ 2	$ 37
Current period provision[1]	-	(1)	(1)	(7)	1	(6)
Recoveries[2]	(1)	-	(1)	(1)	-	(1)
Balance at end of year	$ 26	$ 2	$ 28	$ 27	$ 3	$ 30

1 Includes specific reserve provisions and all changes in non-specific reserves.
2 Includes recoveries on sales and increases in the valuation of loans with specific reserves.

Interest income recognized on commercial mortgage loans with a specific reserve was $2 million and $1 million for the years ended December 31, 2015 and 2014, respectively. The average recorded investment was $14 million and $16 million for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the Company's mortgage loans classified as delinquent and/or in non-accrual status were immaterial in relation to the total mortgage loan portfolio. The Company had no mortgage loans 90 days or more past due and still accruing interest.

The following table summarizes the LTV ratio and DSC ratios of the commercial mortgage loan portfolio, as of the dates indicated:

	LTV ratio			DSC ratio		
(in millions)	Less than 90%	90% or greater	Total[1]	Greater than 1.00	Less than 1.00	Total[1]
December 31, 2015						
Apartment	$ 2,944	$ -	$ 2,944	$ 2,944	$ -	$ 2,944
Industrial	1,255	24	1,279	1,227	52	1,279
Office	1,346	3	1,349	1,313	36	1,349
Retail	2,878	2	2,880	2,869	11	2,880
Other	297	-	297	297	-	297
Total[2]	$ 8,720	$ 29	$ 8,749	$ 8,650	$ 99	$ 8,749
December 31, 2014						
Apartment	$ 2,388	$ 17	$ 2,405	$ 2,399	$ 6	$ 2,405
Industrial	1,180	35	1,215	1,152	63	1,215
Office	1,047	20	1,067	1,021	46	1,067
Retail	2,659	14	2,673	2,641	32	2,673
Other	193	-	193	193	-	193
Total[3]	$ 7,467	$ 86	$ 7,553	$ 7,406	$ 147	$ 7,553

1 While these loan quality measurements contribute to management's assessment of relative credit risk in the commercial mortgage loan portfolio for the dates indicated, based on underwriting criteria and ongoing assessment of the properties' performance, management believes the amounts, net of valuation allowance, are collectible.
2 As of December 31, 2015, the weighted average DSC ratios for the respective LTV ratio ranges above were 2.02 and 0.83, with a total weighted average DSC ratio of 2.02. As of December 31, 2015, the weighted average LTV ratios for the respective DSC ratio ranges above were 60% and 85%, with a total weighted average LTV ratio of 60%.
3 As of December 31, 2014, the weighted average DSC ratios for the respective LTV ratio ranges above were 1.95 and 0.92, with a total weighted average DSC ratio of 1.94. As of December 31, 2014, the weighted average LTV ratios for the respective DSC ratio ranges above were 60% and 90%, with a total weighted average LTV ratio of 60%.

As of December 31, 2015 and 2014, 99.8% and 99.9%, respectively, of the amortized cost of residential mortgage loans were classified as performing and not graded. The Company assigns a performing and not graded rating to residential mortgage loans that are not past due, and as such do not have the characteristics of potential weaknesses that warrant management's attention.

Consumer Lending Products

The Company's other investments includes consumer lending products with a carrying value of $2.4 billion and $2.5 billion as of December 31, 2015 and 2014, respectively. Consumer lending products consist primarily of auto loans and home equity loans. The valuation allowance on these consumer lending products was $22 million and $17 million as of December 31, 2015 and 2014, respectively. The valuation allowance is a reserve representing management's best estimate of probable losses inherent in the existing loan portfolio. Management evaluates the adequacy of the allowance at least quarterly. This evaluation is inherently subjective as it requires estimates that may be susceptible to significant change. As of December 31, 2015 and 2014, 99.5% and 99.7%, respectively, of the consumer lending products were classified as performing and not graded.

Available-For-Sale Securities on Deposit, Held in Trust and Pledged as Collateral

Available-for-sale securities with a carrying value of $218 million and $8 million were on deposit with various regulatory agencies as required by law as of December 31, 2015 and 2014, respectively. Additionally, available-for-sale securities with a carrying value of $805 million and $1.2 billion were placed in trusts or pledged as collateral to secure public deposits, recoveries under reinsurance contracts and other funding and financing agreements as of December 31, 2015 and 2014, respectively. These securities are primarily included in fixed maturity securities in the consolidated balance sheets.

Net Investment Income

The following table summarizes net investment income by investment type, for the years ended:

	December 31,	
(in millions)	2015	2014
Fixed maturity securities, available-for-sale	$ 1,697	$ 1,638
Mortgage loans	451	410
Consumer Lending Products	90	64
Alternative Investments	(56)	(32)
Policy loans	51	51
Other	15	9
Gross investment income	$ 2,248	$ 2,140
Investment expenses	62	61
Net investment income	$ 2,186	$ 2,079

Net Realized Investment Gains and Losses, Including Other-Than-Temporary Impairments

The following table summarizes net realized investment gains and losses, including other-than-temporary impairments, by source, for the years ended:

	December 31,	
(in millions)	2015	2014
Net realized derivative gains (losses)	$ 119	$ (1,088)
Realized gains on sales	14	37
Realized losses on sales	(38)	(26)
Other	(10)	9
Net realized investment gains (losses) before other-than-temporary impairments on fixed maturity securities	$ 85	$ (1,068)
Other-than-temporary impairments on fixed maturity securities[1]	(1)	(6)
Net realized investment gains (losses), including other-than-temporary impairments	$ 84	$ (1,074)

1 Other-than-temporary impairments on fixed maturity securities are net $2 million and $1 million of non-credit losses included in other comprehensive income for the years ended December 31, 2015 and 2014, respectively.

Proceeds from the sale of available-for-sale securities were $540 million and $1.3 billion during the years ended December 31, 2015 and 2014, respectively. Gross gains of $11 million and $22 million and gross losses of $36 million and $12 million were realized on sales of available-for-sale securities during the years ended December 31, 2015 and 2014, respectively.

The following table summarizes the cumulative credit losses, for the years ended:

	December 31,	
(in millions)	2015	2014
Cumulative credit losses at beginning of year[1]	$ (254)	$ (272)
New and incremental credit losses	(1)	(6)
Losses related to securities included in the beginning balance sold or paid down during the period	31	24
Cumulative credit losses at end of year[1]	$ (224)	$ (254)

1 Cumulative credit losses are defined as amounts related to the Company's credit portion of the other-than-temporary impairment losses on debt securities that the Company does not intend to sell and that it is not more likely than not the Company will be required to sell prior to recovery of the amortized cost basis.

(7) Derivative Instruments

The Company is exposed to certain risks related to its ongoing business operations, which are managed using derivative instruments.

Interest rate risk management. In the normal course of business, the Company enters into transactions that expose the Company to interest rate risk arising from mismatches between assets and liabilities. The Company uses interest rate swaps and futures to reduce or alter interest rate exposure.

Interest rate contracts are used by the Company in association with fixed and variable rate investments to achieve cash flow streams that support certain financial obligations of the Company and to produce desired investment returns. As such, interest rate contracts are generally used to convert fixed rate cash flow streams to variable rate cash flow streams or vice versa. In addition, prior to expiry in June 2015, the Company engaged in an interest rate swap program, which was structured to provide an offset against the negative impact of higher interest rates on the Company's statutory surplus position and to mitigate the negative impact of lower interest rates on certain guarantees related to variable annuity contracts.

Equity market risk management. The Company issues a variety of insurance products that expose the Company to equity risks. To mitigate these risks, the Company enters into a variety of derivatives including equity index futures, options and total return swaps.

Other risk management. As part of its regular investing activities, the Company may purchase foreign currency denominated investments. These investments and the associated income expose the Company to volatility associated with movements in foreign exchange rates. As foreign exchange rates change, the increase or decrease in the cash flows of the derivative instrument are intended to mitigate the changes in the functional-currency equivalent cash flows of the hedged item. To mitigate this risk, the Company uses cross-currency swaps, which are included in other derivative contracts in the following tables.

Credit risk associated with derivatives transactions. The Company periodically evaluates the risks within the derivative portfolios due to credit exposure. When evaluating these risks, the Company considers several factors which include, but are not limited to, the counterparty credit risk associated with derivative receivables, the Company's own credit as it relates to derivative payables, the collateral thresholds associated with each counterparty and changes in relevant market data in order to gain insight into the probability of default by the counterparty. In addition, the impact the Company's exposure to credit risk could have on the effectiveness of the Company's hedging relationships is considered. As of December 31, 2015 and 2014, the impact of the exposure to credit risk on the fair value measurement of derivatives and the effectiveness of the Company's hedging relationships was immaterial.

The following table summarizes the fair value and related notional amounts of derivative instruments, as of the dates indicated:

	Derivative assets		Derivative liabilities	
(in millions)	Fair value	Notional	Fair value	Notional
December 31, 2015				
Derivatives designated and qualifying as hedging instruments	$ 86	$ 725	$ 2	$ 89
Derivatives not designated as hedging instruments:				
Interest rate contracts[1]	$ 39	$ 1,225	$ 98	$ 1,059
Equity contracts	445	7,329	-	-
Total return swaps and other derivative contracts	-	141	6	92
Total derivatives[2]	$ 570	$ 9,420	$ 106	$ 1,240
December 31, 2014				
Derivatives designated and qualifying as hedging instruments	$ 29	$ 381	$ 9	$ 176
Derivatives not designated as hedging instruments:				
Interest rate contracts[1]	$ 2,602	$ 33,179	$ 2,611	$ 32,756
Equity contracts	411	5,990	-	-
Total return swaps and other derivative contracts	-	-	44	2,810
Total derivatives[2]	$ 3,042	$ 39,550	$ 2,664	$ 35,742

1 The decreases in the fair value and notional amounts of interest rate contracts are primarily a result of revisions made to the Company's hedging strategies in conjunction with the change in estimate discussed in Note 4.
2 Fair value balance excludes accrued interest on derivative assets and liabilities of $10 million and $11 million, respectively, for the year ended December 31, 2015. Fair value balance excludes accrued interest on derivative assets and liabilities of $243 million and $244 million, respectively, for the year ended December 31, 2014.

Of the $570 million and $3.0 billion of fair value of total derivative assets at December 31, 2015 and 2014, $48 million and $2.6 billion are subject to master netting agreements, the Company received $374 million and $536 million of cash collateral and held $99 million and $64 million, respectively, of securities as off-balance sheet collateral, resulting in an immaterial uncollateralized position as of December 31, 2015 and 2014. Of the $106 million and $2.7 billion of fair value of total derivative liabilities at December 31, 2015 and 2014, respectively, $48 million and $2.6 billion are subject to master netting agreements, respectively. The Company posted $92 million and $330 million of cash collateral and pledged securities with a fair value of $64 million and $174 million, respectively, resulting in an immaterial uncollateralized position as of December 31, 2015 and 2014.

The following table summarizes gains and losses for derivative instruments recognized in net realized investment gains and losses in the consolidated statements of operations, for the years ended:

	December 31,	
(in millions)	2015	2014
Derivatives instruments		
Interest rate contracts	$ (142)	$ 141
Equity contracts	(257)	(79)
Total return swaps	(44)	(195)
Other derivative contracts	(6)	4
Net interest settlements	32	20
Total derivative losses[1]	$ (417)	$ (109)
Change in embedded derivative liabilities and related fees[2]	536	(979)
Net realized derivative gains (losses)	$ 119	$ (1,088)

1 Included in total derivative losses are economic hedging (losses) gains of $(402) million and $941 million related to the guaranteed benefit annuity programs for the years ended December 31, 2015 and 2014, respectively. Also included are economic hedging gains (losses) of $52 million and $(1.0) billion, respectively, related to the program that protects against the negative impact of higher interest rates on the Company's statutory surplus position through expiry.
2 During 2015, the annual comprehensive review of model assumptions for the individual variable annuity business produced a favorable impact of $187 million for the year ended December 31, 2015, attributable to the change in estimate discussed in Note 4. During 2014, the annual comprehensive review of model assumptions for the individual variable annuity business included a favorable impact for the year ended December 31, 2014, primarily due to model enhancements and updated assumptions for discounting and benefit utilization, partially offset by mortality and lapse rates.

(8) Fair Value Measurements

The following table summarizes assets and liabilities held at fair value on a recurring basis as of December 31, 2015:

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Fixed maturity securities, available-for-sale:				
U.S. government and agencies	$ 399	$ 1	$ 2	$ 402
Obligations of states and political subdivisions	63	2,343	-	2,406
Corporate public securities	-	23,389	154	23,543
Corporate private securities	-	4,226	944	5,170
Residential mortgage-backed securities	1,480	2,841	9	4,330
Commercial mortgage-backed securities	-	1,737	-	1,737
Asset-backed securities	-	1,900	125	2,025
Total fixed maturity securities, available-for-sale, at fair value	$ 1,942	$ 36,437	$ 1,234	$ 39,613
Other investments at fair value[1]	346	564	43	953
Investments at fair value	$ 2,288	$ 37,001	$ 1,277	$ 40,566
Derivative instruments - assets	-	125	445	570
Separate account assets	83,466	1,323	2,449	87,238
Assets at fair value	$ 85,754	$ 38,449	$ 4,171	$ 128,374
Liabilities				
Future policy benefits and claims:				
Embedded derivatives on living benefits	$ -	$ -	$ 74	$ 74
Embedded derivatives on indexed products	-	-	(139)	(139)
Total future policy benefits and claims	$ -	$ -	$ (65)	$ (65)
Derivative instruments - liabilities		(100)	(6)	(106)
Liabilities at fair value	$ -	$ (100)	$ (71)	$ (171)

1 Other investments at fair value includes $77 million of trading securities as of December 31, 2015.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the year ended December 31, 2015:

(in millions)	Fixed maturity securities[2]	Other investments	Derivative assets[3]	Separate account assets	Total assets at fair value	Liabilities at fair value[3]
Balance as of December 31, 2014	$ 1,274	$ 41	$ 412	$ 2,106	$ 3,833	$ (264)
Net (losses) gains						
In operations[1]	(6)	-	(46)	18	(34)	313
In other comprehensive income	(43)	1	-	-	(42)	-
Purchases	142	1	103	325	571	(144)
Sales	(164)	-	(24)	-	(188)	24
Transfers into Level 3	201	-	-	-	201	-
Transfers out of Level 3	(170)	-	-	-	(170)	-
Balance as of December 31, 2015	$ 1,234	$ 43	$ 445	$ 2,449	$ 4,171	$ (71)

1 Net gains and losses included in operations are reported in net realized investment gains and losses and interest credited to policyholder accounts. The net unrealized gains on separate account assets are attributable to contractholders, and therefore are not included in the Company's earnings. The change in unrealized gains (losses) included in operations on assets and liabilities still held at the end of the year was $316 million for future policy benefits and claims and $(9) million for derivative assets, and $2 million for derivative liabilities..

2 Non-binding broker quotes were utilized to determine a fair value of $1.1 billion of total fixed maturity securities as of December 31, 2015.

3 Non- binding broker quotes were utilized to determine a fair value of all Level 3 derivative assets and liabilities.

Transfers into and out of Level 3 during the year ended December 31, 2015 are primarily due to certain corporate private securities priced using unobservable inputs to priced using observable inputs.

Separate Accounts

The Company's separate account assets include an investment in a mutual fund with a non-readily determinable fair value. Net asset value has been used to estimate the fair value of this investment as a practical expedient. The investments are included in Level 3 as they may not be redeemed until the guarantee period expires in 2016. The investment strategy of this fund is to build a portfolio where the assets shall be sufficient to achieve a target portfolio value by the end of the guarantee period. The net asset value of this fund reported in separate account assets was $1.7 billion as of December 31, 2015 and 2014.

The following table summarizes assets and liabilities held at fair value on a recurring basis as of December 31, 2014:

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Fixed maturity securities, available-for-sale:				
U.S. government and agencies	$ 523	$ 1	$ 3	$ 527
Obligations of states and political subdivisions	66	2,262	-	2,328
Corporate public securities	-	21,345	98	21,443
Corporate private securities	-	3,658	992	4,650
Residential mortgage-backed securities	1,674	3,564	9	5,247
Commercial mortgage-backed securities	-	1,736	3	1,739
Other asset-backed securities	-	1,398	169	1,567
Total fixed maturity securities, available-for-sale, at fair value	$ 2,263	$ 33,964	$ 1,274	$ 37,501
Other investments at fair value[1]	82	944	41	1,067
Investments at fair value	$ 2,345	$ 34,908	$ 1,315	$ 38,568
Derivative instruments - assets	-	2,630	412	3,042
Separate account assets	84,583	1,387	2,106	88,076
Assets at fair value	$ 86,928	$ 38,925	$ 3,833	$ 129,686
Liabilities				
Future policy benefits and claims:				
Embedded derivatives on living benefits	$ -	$ -	$ (177)	$ (177)
Embedded derivatives on indexed products	-	-	(84)	(84)
Total future policy benefits and claims	$ -	$ -	$ (261)	$ (261)
Derivative instruments - liabilities	-	(2,661)	(3)	(2,664)
Liabilities at fair value	$ -	$ (2,661)	$ (264)	$ (2,925)

1 Other investments at fair value includes $31 million of trading securities as of December 31, 2014.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the year ended December 31, 2014:

(in millions)	Fixed maturity securities[2]	Other investments	Derivative assets[3]	Separate account assets	Total assets at fair value	Liabilities at fair value[3]
Balance as of December 31, 2013	$ 1,094	$ 50	$ 345	$ 2,083	$ 3,572	$ 1,005
Net gains (losses)						
In operations[1]	(4)	-	39	23	58	(1,269)
In other comprehensive income	21	1	-	-	22	-
Purchases	120	-	46	-	166	-
Sales	(240)	(10)	(18)	-	(268)	-
Transfers into Level 3	400	-	-	-	400	-
Transfers out of Level 3	(117)	-	-	-	(117)	-
Balance as of December 31, 2014	$ 1,274	$ 41	$ 412	$ 2,106	$ 3,833	$ (264)

1 Net gains and losses included in operations are reported in net realized investment gains and losses and interest credited to policyholder accounts. The net unrealized gains on separate account assets are attributable to contractholders, and therefore are not included in the Company's earnings. The change in unrealized gains (losses) included in operations on assets and liabilities still held at the end of the year was $(1.3) billion for future policy benefits and claims, $152 million for derivative assets and $6 million for other investments at fair value.

2 Non-binding broker quotes were utilized to determine a fair value of $1.1 billion of total fixed maturity securities as of December 31, 2014.

3 Non-binding broker quotes were utilized to determine a fair value of all Level 3 derivative assets and liabilities.

Transfers into and out of Level 3 during the year ended December 31, 2014 are primarily due to certain corporate private securities and other asset-backed securities, which changed pricing sources between broker quotes and independent pricing services.

Financial Instruments Not Carried at Fair Value

The following table summarizes the carrying value and fair value of the Company's financial instruments not carried at fair value as of the dates indicated. The valuation techniques used to estimate these fair values are described below.

	December 31, 2015		December 31, 2014	
(in millions)	Carrying value	Fair value	Carrying value	Fair value
Assets				
Investments:				
Mortgage loans, net of allowance	$ 10,163	$ 10,232	$ 8,757	$ 9,138
Policy loans	$ 993	$ 993	$ 992	$ 992
Other investments	$ 2,455	$ 2,471	$ 2,597	$ 2,656
Liabilities				
Investment contracts	$ 27,301	$ 25,822	$ 23,470	$ 21,742
Short-term debt	$ 786	$ 786	$ 309	$ 309
Long-term debt	$ 2,098	$ 2,174	$ 2,630	$ 2,782
Customer bank deposits	$ 4,774	$ 4,782	$ 4,851	$ 4,865

Mortgage loans, net of allowance. The fair values of mortgage loans are estimated using discounted cash flow analyses based on interest rates currently being offered for similar loans to borrowers with similar credit ratings.

Policy loans. The carrying amount reported in the consolidated balance sheets approximates fair value.

Other investments. Other investments not held at fair value consist primarily of consumer lending products, which include adjustable and fixed-rate loans. For fixed-rate loans, the fair value is estimated using discounted cash flow analyses and other valuation techniques. The expected cash flows consider historical prepayment experience and are discounted based on an appropriate treasury yield curve plus an estimated spread for credit losses. The fair value of adjustable rate loans approximates their carrying value.

Investment contracts. For investment contracts without defined maturities, fair value is the amount payable on demand, net of surrender charges. For investment contracts with known or determined maturities, fair value is estimated using discounted cash flow analysis. Interest rates used in this analysis are similar to currently offered contracts with maturities consistent with those remaining for the contracts being valued. The fair value of adjustable rate contracts approximates their carrying value.

Short-term debt. The carrying amount reported in the consolidated balance sheets approximates fair value.

Long-term debt. The fair value of senior notes and junior subordinated debentures are based on quoted market prices. The fair value of various fixed rate financial institution borrowings are based on a discounted cash flow analysis using current market rates of instruments with similar remaining maturities.

Customer bank deposits. The fair value of demand deposits, savings accounts and money market deposits is equal to the amount payable on demand as this amount approximates fair value. The fair value of fixed-rate certificates of deposit is estimated by discounting the contractual cash flows using current market rates of instruments with similar remaining maturities.

(9) Closed Block

The amounts shown in the following tables for assets, liabilities, revenues and expenses of the closed block are those that enter into the determination of amounts that are to be paid to policyholders.

The following table summarizes financial information for the closed block, as of the dates indicated:

	December 31,	
(in millions)	2015	2014
Liabilities:		
Future policyholder benefits	$ 1,637	$ 1,669
Policyholder funds and accumulated dividends	138	139
Policyholder dividends payable	21	22
Policyholder dividend obligation	99	152
Other policy obligations and liabilities	35	33
Total liabilities	$ 1,930	$ 2,015
Assets:		
Fixed maturity securities, available-for-sale	$ 1,316	$ 1,336
Mortgage loans, net of allowance	235	272
Policy loans	146	149
Other assets	71	86
Total assets	$ 1,768	$ 1,843
Excess of reported liabilities over assets	162	172
Portion of above representing other comprehensive income:		
(Decrease) increase in unrealized gain on fixed maturity securities, available-for-sale	$ (53)	$ 35
Adjustment to policyholder dividend obligation	53	(35)
Total	$ -	$ -
Maximum future earnings to be recognized from assets and liabilities	$ 162	$ 172
Other comprehensive income:		
Fixed maturity securities, available-for-sale:		
Fair value	$ 1,316	$ 1,336
Amortized cost	1,249	1,216
Shadow policyholder dividend obligation	(67)	(120)
Net unrealized appreciation	$ -	$ -

The following table summarizes closed block operations for the years ended:

	December 31,	
(in millions)	2015	2014
Revenues		
Premiums	$ 58	$ 61
Net investment income	87	93
Realized investment gains	1	1
Realized losses credited to policyholder benefit obligation	(5)	(5)
Total revenues	$ 141	$ 150
Benefits and expenses		
Policy and contract benefits	$ 122	$ 124
Change in future policyholder benefits and interest credited to policyholder accounts	(33)	(34)
Policyholder dividends	40	43
Change in policyholder dividend obligation	(4)	(1)
Other expenses	1	2
Total benefits and expenses	$ 126	$ 134
Total revenues, net of benefits and expenses, before federal income tax expense	$ 15	$ 16
Federal income tax expense	5	6
Revenues, net of benefits and expenses and federal income tax expense	$ 10	$ 10
Maximum future earnings from assets and liabilities		
Beginning of period	$ 172	$ 182
Change during period	(10)	(10)
End of period	$ 162	$ 172

Cumulative closed block earnings from inception through December 31, 2015 and 2014 were higher than expected as determined in the actuarial calculation. Therefore, policyholder dividend obligations (excluding the adjustment for unrealized gains on available-for-sale securities) was $32 million as of December 31, 2015 and 2014.

(10) Debt

The following table summarizes the carrying value of debt, as of the dates indicated:

	December 31,	
(in millions)	2015	2014
$200 million principal, 5.625% senior notes, due February 13, 2015[1]	$ -	$ 200
$200 million principal, 5.10% senior notes, due October 1, 2015[2]	-	200
$600 million principal, 5.375% senior notes, due March 25, 2021	598	598
$400 million principal, 5.30% senior notes, due November 18, 2044	399	399
$400 million principal, 6.75% fixed-to-floating rate junior subordinated notes, due May 15, 2037, final maturity May 15, 2067 extendible to 2087	399	399
$100 million principal, 7.899% junior subordinated debentures, due March 1, 2037	103	103
Various fixed rate financial institution borrowings, due through June 2031[3]	592	722
Other	7	9
Long-term debt	$ 2,098	$ 2,630
Short-term debt[4]	786	309
Total	$ 2,884	$ 2,939

1 On February 13, 2015, the Company repaid its $200 million 5.625% senior notes.
2 On October 1, 2015, the Company repaid its $200 million principal, 5.10% senior notes.
3 Includes no FHLB fixed-rate advances and $100 million as of December 31, 2015 and 2014, respectively, relating to the $900 million line of credit agreement.
4 The Company classifies debt as short-term if the maturity date at inception is less than one year.

Senior and subordinated notes. All of the notes are redeemable in advance of their respective maturity dates under varying conditions at the option of the Company.

The terms of the senior notes contain various restrictive covenants including limitations on the disposition of subsidiaries. The Company was in compliance with all such covenants as of December 31, 2015 and 2014.

On November 20, 2014, the Company issued senior notes with principal amounts of $400 million. These notes bear semi-annual interest payments over the 30-year term of the notes at 5.30%.

The 7.899% junior subordinated debentures were sold by the Company to an unconsolidated VIE in March 1997. The junior subordinated debentures are the sole assets of the unconsolidated VIE and are redeemable by NFS, in whole or in part, from time to time, at par plus an applicable make-whole premium.

Financial institutions borrowings. As of December 31, 2015 and 2014, Nationwide Bank had fixed rate advances from various financial institutions with weighted average interest rates of 1.58% and 1.42%, respectively. The advances are secured by investments and single family residential loans owned by Nationwide Bank.

Short-term debt. In April 2014, Nationwide Bank entered into an agreement with the FHLB to increase its $550 million revolving variable rate line of credit to $900 million and to reduce its $250 million line of credit to $100 million. The borrowings are collateralized by investments and single family residential loans owned by the Company. The available portion of the credit facilities is limited by the collateral value of loans or securities pledged. As of December 31, 2015 and 2014, the credit facilities were fully collateralized. The $900 million line of credit had outstanding short-term borrowings of $386 million and $45 million as of December 31, 2015 and 2014, respectively, with an overnight interest rate of 0.35% and 0.14% as of December 31, 2015 and 2014, respectively. In addition to the outstanding short-term borrowings under the $900 million revolving variable rate line of credit agreement, the Company has long-term financial institution borrowings under the same agreement. The $100 million line of credit agreement had no amounts outstanding as of December 31, 2015 and 2014.

On December 4, 2015, the Company renewed an agreement to increase its $600 million commercial paper program to $750 million. Under this commercial paper program, the Company had outstanding short term borrowings of $400 million, with a weighted average interest rate of 0.45%, and $264 million, with a weighted average interest rate of 0.20%, as of December 31, 2015 and 2014, respectively.

Other open lines of short-term credit. In March 2015, NLIC renewed an agreement with the FHLB that allows NLIC access to borrow up to $250 million, which would be collateralized by pledged securities. The agreement expires on March 25, 2016. As of December 31, 2015 and 2014, the Company had $6.7 billion and $8.5 billion, respectively, in eligible collateral and no amounts outstanding under the agreement.

On April 2, 2015, the Company replaced its previous $600 million revolving variable rate credit facility with a new credit facility of $750 million which expires on April 2, 2020. The Company had no amounts outstanding under the facility as of December 31, 2015 and 2014.

NLIC has entered into an agreement with its custodial bank to borrow against the cash collateral that is posted in connection with its securities lending program. The maximum amount available under the agreement is $350 million. The borrowing rate on this program is equal to one-month U.S. LIBOR. NLIC had no amounts outstanding under this agreement as of December 31, 2015 and 2014.

*Debt covenants***.** The terms of certain debt instruments contain various restrictive covenants, including, but not limited to, minimum statutory surplus and minimum net worth requirements, and maximum debt to statutory surplus leverage ratio requirements, as defined in the agreements. The Company was in compliance with all covenants as of December 31, 2015 and 2014.

Interest payments. The Company made interest payments on its long-term debt totaling $79 million and $62 million for the years ended December 31, 2015 and 2014, respectively. The Company made interest payments on its short-term debt totaling $4 million and $1 million for the years ended December 31, 2015 and 2014, respectively. In addition, distributions related to junior subordinated notes and debentures were classified as interest expense in the consolidated statements of operations. The Company made distributions of $35 million for the years ended December 31, 2015 and 2014.

(11) Federal Income Taxes

The following table summarizes the federal income tax expense (benefit) attributable to income, before loss attributable to noncontrolling interests, for the years ended:

	December 31,	
(in millions)	2015	2014
Current tax expense	$ 83	$ 36
Deferred tax expense (benefit)	230	(146)
Total tax expense (benefit)	$ 313	$ (110)

The following table summarizes how the total federal income tax expense (benefit) differs from the amount computed by applying the U.S. federal income tax rate to income before loss attributable to noncontrolling interests, for the years ended:

	December 31, 2015		December 31, 2014	
(in millions)	Amount	%	Amount	%
Rate reconciliation:				
Computed (expected tax expense (benefit))	$ 450	35 %	$ (9)	35 %
Dividends received deduction	(118)	(9)%	(88)	338 %
Tax credits	(62)	(5)%	(53)	204 %
Other, net	43	3 %	40	(154)%
Total	$ 313	24 %	$ (110)	423 %

The Company's current federal income tax liability was $65 million and $48 million as of December 31, 2015 and 2014, respectively.

The Company made $34 million and immaterial payments for the years ended December 31, 2015 and 2014, respectively.

During 2015 and 2014, the Company recorded a tax (benefit) expense of $(1) million and $16 million, respectively, primarily related to differences in the Company's separate account dividends received deduction ("DRD") between the prior year estimate and the amount reported on the Company's tax return.

As of December 31, 2015, the Company has gross federal net operating and capital loss carryforwards of $259 million, which expire between 2028 and 2035. As of December 31, 2015, the Company has $218 million in low-income-housing credit carryforwards, which expire between 2024 and 2035, and $197 million in alternative minimum tax credit carryforwards, which have an unlimited carryforward. In addition, the Company has $68 million in foreign tax credit carryforwards which expire between 2019 and 2025. The Company expects to fully utilize all carryforwards.

The following table summarizes the tax effects of temporary differences that gave rise to significant components of the net deferred tax liability included in other liabilities in the consolidated balance sheets, as of the dates indicated:

	December 31,	
(in millions)	2015	2014[1]
Deferred tax assets:		
Future policy benefits and claims	$ 825	$ 839
Tax credit carryforwards	483	356
Derivatives, including embedded derivatives	120	147
Other	407	448
Gross deferred tax assets	$ 1,835	$ 1,790
Valuation allowance	(17)	(17)
Gross deferred tax assets, net of valuation allowance	$ 1,818	$ 1,773
Deferred tax liabilities:		
Deferred policy acquisition costs	$ 1,504	$ 1,116
Available-for-sale securities	320	853
Other	280	238
Gross deferred tax liabilities	$ 2,104	$ 2,207
Net deferred tax liability	$ 286	$ 434

1 Prior year amounts primarily related to certain annuity and life insurance balances have been reclassified between future policy benefits, available-for-sale securities, derivatives, other assets and other liabilities to conform with current year presentation.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion of the total gross deferred tax assets will not be realized. Valuation allowances are established when necessary to reduce the deferred tax assets to amounts expected to be realized. Based on the Company's analysis, it is more likely than not that the results of future operations and the implementation of tax planning strategies will generate sufficient taxable income to enable the Company to realize the deferred tax assets for which the Company has not established valuation allowances.

The Company does not anticipate any significant changes to unrecognized tax benefits during the next twelve months.

The Company files consolidated income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities through the 2010 tax year. Any adjustments that may result from IRS examination of tax returns and/or appeals settlement are not expected to have a material effect on the results of operations, cash flows or financial position of the Company.

(12) Statutory Financial Information and Other Regulations

Statutory Results

The Company's life insurance subsidiaries prepare their statutory financial statements in conformity with the statutory accounting practices prescribed and permitted by insurance regulatory authorities, subject to any deviations prescribed or permitted by the applicable state departments of insurance.

Olentangy Reinsurance, LLC ("Olentangy"), a special purpose financial captive insurance company subsidiary of NLAIC domiciled in the State of Vermont, was granted a permitted practice from the State of Vermont that increased NLAIC's valuation of this subsidiary by $56 million and $66 million as of December 31, 2015 and 2014, respectively, which also allowed NLIC to admit additional deferred tax assets of $8 million and $10 million as of December 31, 2015 and 2014, respectively.

Eagle Captive Reinsurance, LLC ("Eagle"), a special purpose financial captive insurance company subsidiary of NLIC domiciled in the State of Ohio, applies a prescribed practice from the State of Ohio that allows an alternative reserve basis on assumed liabilities, net of third party reinsurance, with respect to specified GMDB and GLWB obligations provided under substantially all of the variable annuity contracts issued and to be issued by NLIC. This prescribed practice decreased NLIC's valuation of this subsidiary by $64 million as of December 31, 2015 and also reduced NLIC's admitted deferred tax assets by $10 million.

Statutory accounting practices focus on insurer solvency and differ materially from GAAP primarily due to charging policy acquisition and other costs to expense as incurred, establishing future policy benefits and claims reserves based on different actuarial assumptions, excluding certain assets from statutory admitted assets and valuing investments and establishing deferred taxes on a different basis.

The following table summarizes the statutory net income (loss) and statutory capital and surplus for the Company's primary life insurance subsidiaries for the years ended:

	December 31,	
(in millions)	2015	2014
Statutory net income (loss)		
NLIC	$ 167	$ 341
NLAIC	$ (99)	$ (122)
Statutory capital and surplus		
NLIC	$ 4,567	$ 4,408
NLAIC	$ 735	$ 691

Dividend Restrictions

As an insurance holding company, NFS' ability to meet debt service obligations and pay operating expenses and dividends depends primarily on the receipt of sufficient funds from its primary operating subsidiary, NLIC. The inability of NLIC to pay dividends to NFS in an amount sufficient to meet debt service obligations and pay operating expenses and dividends would have a material adverse effect on the Company. The payment of dividends by NLIC is subject to restrictions set forth in the insurance laws and regulations of the State of Ohio, its domiciliary state. The State of Ohio insurance laws require Ohio-domiciled life insurance companies to seek prior regulatory approval to pay a dividend or distribute cash or other property if the fair market value thereof, together with that of other dividends or distributions made in the preceding twelve months, exceeds the greater of (1) 10% of statutory-basis policyholders' surplus as of the prior December 31 or (2) the statutory-basis net income of the insurer for the prior year. During the years ended December 31, 2015 and 2014, NLIC did not pay any dividends to NFS. As of January 1, 2016, NLIC has the ability to pay dividends to NFS totaling $457 million without obtaining prior approval.

The State of Ohio insurance laws also require insurers to seek prior regulatory approval for any dividend paid from other than earned surplus. Earned capital and surplus is defined under the State of Ohio insurance laws as the amount equal to the Company's unassigned funds as set forth in its most recent statutory financial statements, including net unrealized capital gains and losses or revaluation of assets. Additionally, following any dividend, an insurer's policyholder capital and surplus must be reasonable in relation to the insurer's outstanding liabilities and adequate for its financial needs. The payment of dividends by NLIC may also be subject to restrictions set forth in the insurance laws of the State of New York that limit the amount of statutory profits on NLIC's participating policies (measured before dividends to policyholders) available for the benefit of the Company and its stockholders.

The Company currently does not expect such regulatory requirements to impair the ability of its insurance company subsidiaries to pay sufficient dividends in order for NFS to have the necessary funds available to meet its obligations.

Regulatory Risk-Based Capital

The National Association of Insurance Commissioners' ("NAIC") Risk-Based Capital ("RBC") model law requires every insurer to calculate its total adjusted capital and RBC requirement to ensure insurer solvency. Regulatory guidelines provide for an insurance commissioner to intervene if the insurer experiences financial difficulty, as evidenced by a company's total adjusted capital falling below established relationships to required RBC. The model includes components for asset risk, liability risk, interest rate exposure and other factors. Each insurance company's state of domicile imposes minimum RBC requirements that are developed by the NAIC. The formulas in the model for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of total adjusted capital to authorized control level RBC, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, all of which require specified corrective action. The Company and its insurance subsidiaries each exceeded the minimum RBC requirements for all the periods presented.

Other Regulations

Nationwide Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. The regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate corrective action.

The Office of the Comptroller of the Currency ("OCC") and Office of Thrift Supervision (became part of the OCC in July 2011) regulations establish a tiered system of capital requirements, with the greatest flexibility afforded to institutions that are both well-capitalized and given favorable qualitative examination ratings. The regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2015, Nationwide Bank is considered to be well capitalized. There are no conditions or events since the most recent notification that management believes have changed Nationwide Bank's category.

(13) Related Party Transactions

The Company has entered into significant, recurring transactions and agreements with NMIC, other affiliates and subsidiaries as a part of its ongoing operations. These include annuity and life insurance contracts, agreements related to reinsurance, cost sharing, tax sharing, administrative services, marketing, intercompany loans, intercompany repurchases, cash management services and software licensing. In addition, employees of the Company participate in several benefit plans sponsored by NMIC, for which the Company has no legal obligations. Measures used to allocate expenses among companies include individual employee estimates of time spent, special cost studies, claims counts, policies in force, direct written premium, paid losses, pro rate share of employees or their salaries, the number of full-time employees, commission expense and other methods agreed to by the participating companies.

Effective January 1, 2015, the Company became party to a revised tax sharing agreement that reflects the new NMIC consolidated federal return group which includes its eligible life and non-life insurance company subsidiaries. The method of allocation among the companies is based upon separate return calculations with current benefit for tax losses and credits utilized in the consolidated return.

In addition, Nationwide Services Company, LLC ("NSC"), a subsidiary of NMIC, provides data processing, systems development, hardware and software support, telephone, mail and other services to the Company, based on specified rates for units of service consumed pursuant to the enterprise cost sharing agreement. For the years ended December 31, 2015 and 2014, the Company was allocated costs from NMIC and NSC totaling $325 million and $307 million, respectively.

The Company has issued group annuity and life insurance contracts and performs administrative services for various employee benefit plans sponsored by NMIC or its affiliates. Total account values of these contracts were $3.3 billion as of December 31, 2015 and 2014. Total revenues from these contracts were $129 million and $131 million for the years ended December 31, 2015 and 2014, respectively, and include policy charges, net investment income from investments backing the contracts and administrative fees. Total interest credited to the account balances was $106 million and $109 million for the years ended December 31, 2015 and 2014, respectively.

The Company may underwrite insurance policies and issue loans to its agents, employees, officers and/or directors. The Company may offer discounts on certain products that are subject to applicable state insurance laws and approvals.

Under the enterprise cost sharing agreement, the Company has a cost sharing arrangement with NMIC to occupy office space. For the years ended December 31, 2015 and 2014, the Company made payments to NMIC of $22 million and $19 million, respectively.

NLIC has a reinsurance agreement with NMIC whereby all of NLIC's accident and health business not ceded to unaffiliated reinsurers is ceded to NMIC on a modified coinsurance basis. Either party may terminate the agreement on January 1 of any year with prior notice. Under a modified coinsurance agreement, the ceding company retains invested assets, and investment earnings are paid to the reinsurer. Under the terms of NLIC's agreements, the investment risk associated with changes in interest rates is borne by the reinsurer. The ceding of risk does not discharge the original insurer from its primary obligation to the policyholder. Revenues ceded to NMIC for the years ended December 31, 2015 and 2014 were $209 million and $208 million, respectively, while benefits, claims and expenses ceded during these years were $207 million and $217 million, respectively.

Amounts on deposit with NCMC for the benefit of the Company were $512 million and $664 million as of December 31, 2015 and 2014, respectively.

Nationwide Bank originated $3 million and $47 million in family residential real estate loans through Nationwide Advantage Mortgage Company ("NAMC"), a subsidiary of NMIC, for the years ended December 31, 2015 and 2014, respectively. Nationwide Bank did not purchase any family residential real estate loans through NAMC during 2015 and 2014. NAMC performs servicing responsibilities on behalf of Nationwide Bank for portions of its purchased and originated loan portfolio. For the years ended December 31, 2015 and 2014, Nationwide Bank sold $3 million and $37 million, respectively, in family residential real estate loans to NAMC.

Nationwide Bank has made loans to agents of NMIC ($30 million and $38 million as of December 31, 2015 and 2014, respectively). These loans were made in the ordinary course of business under normal credit and underwriting terms and do not represent more than the normal risk of collection. Nationwide Bank has a guarantee from NMIC it will repurchase the loan from Nationwide Bank in the event of default. There were immaterial loans repurchased for the years ended December 31, 2015 and 2014.

The Company provides financing to subsidiaries of Nationwide Realty Investors, LTD, a subsidiary of NMIC. As of December 31, 2015 and 2014, the Company had notes receivable outstanding of $238 million and $142 million, respectively.

(14) Contingencies

Legal and Regulatory Matters

The Company is subject to legal and regulatory proceedings in the ordinary course of its business. The Company's legal and regulatory matters include proceedings specific to the Company and other proceedings generally applicable to business practices in the industries in which the Company operates. These matters are subject to many uncertainties, and given their complexity and scope, their outcomes cannot be predicted. Regulatory proceedings could also affect the outcome of one or more of the Company's litigation matters. Furthermore, it is often not possible to determine the ultimate outcomes of the pending regulatory investigations and legal proceedings or to provide reasonable ranges of potential losses with any degree of certainty. Some matters, including certain of those referred to below, are in very preliminary stages, and the Company does not have sufficient information to make an assessment of the plaintiffs' claims for liability or damages. In some of the cases seeking to be certified as class actions, the court has not yet decided whether a class will be certified or (in the event of certification) the size of the class and class period. In many of the cases, the plaintiffs are seeking undefined amounts of damages or other relief, including punitive damages and equitable remedies, which are difficult to quantify and cannot be defined based on the information currently available. The Company believes, however, that based on currently known information, the ultimate outcome of all pending legal and regulatory matters is not likely to have a material adverse effect on the Company's consolidated financial position. Nonetheless, given the large or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that such outcomes could materially affect the Company's consolidated financial position or results of operations in a particular quarter or annual period.

The various businesses conducted by the Company are subject to oversight by numerous federal and state regulatory entities, including but not limited to the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Department of Labor, the IRS, the Federal Reserve Bank and state insurance authorities. Such regulatory entities may, in the normal course, be engaged in general or targeted inquiries, examinations and investigations of the Company and/or its affiliates. The financial services industry has been the subject of increasing scrutiny in connection with a broad spectrum of regulatory issues; with respect to all such scrutiny directed at the Company and/or its affiliates, the Company is cooperating with regulators. The Company will cooperate with NMIC insofar as any inquiry, examination or investigation encompasses NMIC's operations.

On August 15, 2001, NFS and NLIC were named in a lawsuit filed in the United States District Court for the District of Connecticut entitled Lou Haddock, as trustee of the *Flyte Tool & Die, Incorporated Deferred Compensation Plan, et al v. Nationwide Financial Services, Inc. and Nationwide Life Insurance Company*. On November 18, 2009, the plaintiffs filed a sixth amended complaint amending the list of named plaintiffs and claiming to represent a class of qualified retirement plan trustees under the Employee Retirement Income Security Act of 1974 (ERISA) that purchased variable annuities from NLIC. The plaintiffs allege that they invested ERISA plan assets in their variable annuity contracts and that NLIC and NFS breached ERISA fiduciary duties by allegedly accepting service payments from certain mutual funds. The complaint seeks damages in an amount equivalent to some or all of the payments allegedly received by NFS and NLIC, other unspecified relief for restitution, declaratory and injunctive relief and attorneys' fees. On November 6, 2009, the Court granted the plaintiffs' motion for class certification. On October 21, 2010, the District Court dismissed NFS from the lawsuit. On February 6, 2012, the Second Circuit Court of Appeals vacated the November 6, 2009 order granting class certification and remanded the case back to the District Court for further consideration. On September 6, 2013, the District Court granted the plaintiffs' motion for class certification. On December 11, 2014, the plaintiffs filed a 7th Amended Complaint adding another sub class of defendants that held trust platform products. On December 11, 2014 plaintiffs filed a motion for preliminary approval of settlement. On January 5, 2015, the Court signed the Order Preliminarily Approving Settlement and Approving Form and Manner of Notice. On March 31, 2015, the Court held a Fairness Hearing. On April 9, 2015, the Court entered the Final Order and Consent Judgment. The Company has paid the loss amount. In November 2015, the settlement administrator mailed settlement checks to class members. NFS has made adequate provision for all probable and reasonably estimable losses associated with this settlement.

Indemnifications

In the normal course of business, the Company provides standard indemnifications to contractual counterparties. The types of indemnifications typically provided include breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated, and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

(15) Reinsurance

The following table summarizes the effects of reinsurance on life, accident and health insurance in force and premiums for the years ended:

	December 31,	
(in millions)	2015	2014
Premiums		
Direct	$ 1,144	$ 1,178
Assumed from other companies	-	-
Ceded to other companies	(358)	(347)
Net	$ 786	$ 831
Life, accident and health insurance in force		
Direct	$ 260,465	$ 241,936
Assumed from other companies	5	5
Ceded to other companies	(60,976)	(59,588)
Net	$ 199,494	$ 182,353

Amounts recoverable under reinsurance contracts totaled $647 million and $704 million as of December 31, 2015 and 2014, respectively, and are included in other assets in the consolidated balance sheets.