RETIREMENT PLANNER VA/DIVERSIFIER II

PENN MUTUAL VARIABLE ANNUITY ACCOUNT III
THE PENN MUTUAL LIFE INSURANCE COMPANY
Philadelphia, Pennsylvania 19172 • Telephone (800) 523-0650

This statement of additional information is not a prospectus. It should be read in conjunction with the current Prospectus for the Penn Mutual Retirement Planner VA or the current Prospectus for the Penn Mutual Diversifier II Variable/Fixed Contracts and Penn Mutual Diversifier II Variable Contracts, each dated May 1, 2016. The Contracts are funded through Penn Mutual Variable Annuity Account III (referred to as the "Separate Account"). To obtain a prospectus you may write to The Penn Mutual Life Insurance Company ("Penn Mutual" or the "Company"), Customer Service Group, Philadelphia, PA 19172, visit our web site at www.pennmutual.com or call (800) 523-0650. Terms used in this statement of additional information have the same meaning as the Prospectus.

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Variable Annuity Payments

First Variable Annuity Payments

When a variable annuity is effected, we will first deduct applicable premium taxes, if any, from the Contract Value. The dollar amount of the first monthly annuity payment will be determined by applying the net Contract or Variable Account Value to the annuity table set forth in the contract for the annuity option chosen. The annuity tables show the amount of the first monthly income payment under each annuity option for each $1,000 of value applied. The annuity tables for the Retirement Planner VA are based on the 1983 Individual Annuity Mortality Tables, with a choice between assumed interest rates of 3.5% and 5%. The annuity tables for the Diversifier II Variable/Fixed Contracts are based on the 1983 Individual Annuity Mortality Tables and the annuity tables for the Diversifier II Variable Contracts are based on the 1971 Individual Annuity Mortality Tables. The tables assume a rate of interest of 4%. The amount of the first monthly income for each $1,000 of value is shown at various ages.

The United States Supreme Court has ruled that life annuity payments under an employer's retirement plan may not be based upon sex-distinct mortality tables. Where this decision applies or where otherwise required by law, Penn Mutual will provide annuity payments based upon unisex tables.

Subsequent Variable Annuity Payments

The dollar amount of subsequent variable annuity payments will vary in accordance with the investment experience of the Subaccount(s) of the Separate Account applicable to the annuity. Each subsequent variable annuity payment will equal the number of annuity units credited, multiplied by the value of the annuity unit for the Valuation Period. The Company guarantees that the amount of each subsequent annuity payment will not be affected by variations in expense or mortality experience.

Annuity Units

For each Subaccount selected, the number of annuity units is the amount of the first annuity payment allocated to the Subaccount divided by the value of an annuity unit for the Subaccount on the Annuity Date. The number of your annuity units will not change as a result of investment experience.

Value of Annuity Units

The value of an annuity unit for each Subaccount was arbitrarily set at $10 when the Subaccount was established. The value may increase or decrease from one Valuation Period to the next. For a Valuation Period, the value of an annuity unit for a Subaccount is the value of an annuity unit for the Subaccount for the last prior Valuation Period multiplied by the net investment factor for the Subaccount for the Valuation Period. The result is then multiplied by a factor to neutralize the assumed interest rate included in the annuity tables.

Net Investment Factor

For any Subaccount, the net investment factor for a Valuation Period is determined by dividing (a) by (b) and subtracting (c):

Where (a) is:

The net asset value per share of the mutual fund held in the Subaccount, as of the end of the Valuation Period.

plus

The per share value of any dividend or capital gain distributions by the mutual fund if the "ex-dividend" date occurs in the Valuation Period.

plus or minus

A per share charge or credit, as we may determine as of the end of the Valuation Period, for provision for taxes (if applicable).

Where (b) is:

The net asset value per share of the mutual fund held in the Subaccount as of the end of the last prior Valuation Period.

plus or minus

The per share charge or credit for provision for taxes as of the end of the last prior Valuation Period (if applicable).

Where (c) is:

The sum of the mortality and expense risk charge or credit and the daily administration charge. On an annual basis, the sum of such charges equals 1.25% of the daily net asset value of the Subaccount.

Assumed Interest Rate

Except for the Retirement Planner VA, a 4% assumed interest rate is included in the annuity tables in the contracts. The Retirement Planner VA offers a choice of 3.5% or 5% assumed interest rates. A higher assumption would mean a higher first annuity payment but more slowly rising and more rapidly falling subsequent payments. A lower assumption would have the opposite effect. If the actual net investment rate equals the assumed interest rate on an annual basis, annuity payments will be level.

Valuation Period

Valuation Period is the period from one valuation of underlying fund assets to the next. Valuation is performed each day the New York Stock Exchange is open for trading.

Transaction Valuation

Your allocations and transfers to the Separate Account are held as Accumulation Units of the Subaccounts that you select. We value Accumulation Units as of the close of regular trading on the New York Stock Exchange ("NYSE") (generally, 4:00 p.m. ET). When you invest in, withdraw from or transfer money to a Subaccount, you receive the Accumulation Unit price next computed after we receive and accept your purchase payment or your withdrawal or transfer request at our Administrative Office. Allocation, withdrawal and transfer instructions received at our Administrative Office after the close of regular trading on the NYSE will be valued based on the value of an Accumulation Unit computed as of the close of regular trading on the next NYSE business day. In order to receive a day's closing price, instructions sent by facsimile transmission must be received by our fax server prior to the close of regular trading on that day. Telephone instructions must be received in full, containing all required information and confirmed back to the caller prior to the close of regular trading in order to receive that day's closing price.

Administrative and Recordkeeping Services

The Company performs all data processing, recordkeeping and other related services with respect to the Contracts and the Separate Accounts.

Distribution of Contracts

Hornor, Townsend & Kent, Inc. ("HTK"), a wholly owned subsidiary of the Company, serves as principal underwriter of the combination variable and fixed annuity contracts and the variable annuity contracts. The address of HTK is 600 Dresher Road, Horsham, PA 19044. For 2015, 2014, and 2013 the Company paid commissions to HTK of approximately $46,687, $110,192, and $108,777, respectively.

The Contracts will be distributed by Hornor, Townsend & Kent, Inc. through broker-dealers. Total commissions on purchase payments made under the Contract will not exceed 6.7% and trailer commissions based on a percentage of Contract Value, other allowance and overrides may be paid. The offering of the Contracts is continuous, and the Company does not anticipate discontinuing the offering of the Contract, although we reserve the right to do so.

Custodian

The Company is custodian of the assets held in the Separate Account.

Experts

The financial statements of the Company as of December 31, 2015 and 2014 and for each of the two years in the period ended December 31, 2015, and the financial statements and financial highlights of the Separate Account of the Company as of December 31, 2015 and for the periods indicated, included in this Statement of Additional Information constituting part of this Registration Statement, have been so included in reliance on the reports of PricewaterhouseCoopers LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Legal Matters

Morgan, Lewis & Bockius LLP has provided advice on certain matters relating to the federal securities laws and the offering of the Contracts and Certificates. Their offices are located at 1111 Pennsylvania Avenue, N.W., Washington, D.C. 20004.

Financial Statements

The financial statements of the Separate Account and the statutory financial statements of the Company appear on the following pages. The statutory financial statements of the Company should be considered only as bearing upon the Company's ability to meet its obligations under the Contracts.

The Penn Mutual Life Insurance Company

Variable Annuity Account III

Audited Financial Statements
as of December 31, 2015
and for the periods presented

PricewaterhouseCoopers LLP,
Two Commerce Square, Suite 1700,
2001 Market Street,
Philadelphia, PA 19103-7045
T: (267) 330 3000,
F: (267) 330 3300,
www.pwc.com/us

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of The Penn Mutual Life Insurance Company
and Contract Owners of Penn Mutual Variable Annuity Account III
of The Penn Mutual Life Insurance Company

In our opinion, the accompanying statements of assets and liabilities, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of each of the sub accounts constituting Penn Mutual Variable Annuity Account III of The Penn Mutual Life Insurance Company at December 31, 2015, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of The Penn Mutual Life Insurance Company’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of investments by correspondence with the underlying funds’ transfer agents at December 31, 2015, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 1, 2016

	Total	Money Market Fund	Limited Maturity Bond Fund	Quality Bond Fund
Assets:				
Investments at fair value	$6,023,910,188	$74,587,198	$93,831,097	$259,713,695
Dividends receivable	637	637	—	—
Receivable for securities sold	8,472,351	—	—	—
Liabilities:				
Payable for securities purchased	8,641,484	85,848	635,380	2,327,972
Total Net Assets	**$6,023,741,692**	**$74,501,987**	**$93,195,717**	**$257,385,723**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA		$23,204,355	$23,551,960	$ 74,636,919
Diversifier II/Optimizer/Retirement Planner VA		3,178,666	1,949,636	10,925,526
Inflation Protector Variable Annuity		4,313,506	6,067,308	22,581,749
Olympia XT Advisor		—	—	—
Penn Freedom Advisor		—	—	—
Pennant Select		8,104,037	13,387,039	29,268,108
PennFreedom		15,486,443	34,291,450	62,937,997
Smart Foundation Flex		11,494,170	7,146,341	26,107,689
Smart Foundation Plus		4,397,386	3,711,522	18,145,279
Smart Foundation VA		4,323,424	3,090,461	12,782,456
Total Net Assets		**$74,501,987**	**$93,195,717**	**$257,385,723**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA		$ 11.07	$ 13.30	$ 17.75
Diversifier II/Optimizer/Retirement Planner VA		$ 22.81	$ 16.79	$ 40.09
Inflation Protector Variable Annuity		$ 9.15	$ 9.48	$ 10.57
Olympia XT Advisor		$ —	$ —	$ —
Penn Freedom Advisor		$ —	$ —	$ —
Pennant Select		$ 11.06	$ 13.41	$ 17.90
PennFreedom		$ 9.84	$ 11.72	$ 14.88
Smart Foundation Flex		$ 9.37	$ 9.50	$ 9.92
Smart Foundation Plus		$ 9.39	$ 9.52	$ 9.94
Smart Foundation VA		$ 9.46	$ 9.60	$ 10.02
Number of Shares		74,501,987	8,041,045	19,136,485
Cost of Investments	$4,522,089,119	$74,501,987	$92,694,249	$244,377,554

The accompanying notes are an integral part of these financial statements.

	High Yield Bond Fund	Flexibly Managed Fund	Balanced Fund	Large Growth Stock Fund
Assets:				
Investments at fair value	$118,734,252	$2,922,120,194	$54,367,921	$193,405,118
Dividends receivable	—	—	—	—
Receivable for securities sold	—	2,575,587	—	1,374,968
Liabilities:				
Payable for securities purchased	1,390,067	—	19,732	—
Total Net Assets	**$117,344,185**	**$2,924,695,781**	**$54,348,189**	**$194,780,086**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$ 34,511,480	$ 703,259,790	$12,901,729	$ 55,026,087
Diversifier II/Optimizer/Retirement Planner VA	8,920,147	175,511,135	8,248,626	26,814,071
Inflation Protector Variable Annuity	9,905,836	331,940,974	4,367,802	8,843,852
Olympia XT Advisor	—	—	—	—
Penn Freedom Advisor	—	—	—	—
Pennant Select	13,223,363	232,851,276	7,049,857	19,087,616
PennFreedom	22,244,394	603,285,195	10,104,903	33,663,732
Smart Foundation Flex	11,107,659	397,974,787	4,712,138	21,647,499
Smart Foundation Plus	8,979,522	274,011,179	3,112,202	15,613,474
Smart Foundation VA	8,451,784	205,861,445	3,850,932	14,083,755
Total Net Assets	**$117,344,185**	**$2,924,695,781**	**$54,348,189**	**$194,780,086**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ 22.28	$ 42.71	$ 15.25	$ 11.84
Diversifier II/Optimizer/Retirement Planner VA*	$ 79.34	$ 258.80	$ 15.42	$ 81.80
Inflation Protector Variable Annuity	$ 12.13	$ 17.17	$ 14.78	$ 20.75
Olympia XT Advisor	$ —	$ —	$ —	$ —
Penn Freedom Advisor	$ —	$ —	$ —	$ —
Pennant Select	$ 22.47	$ 43.07	$ 15.31	$ 11.94
PennFreedom	$ 21.29	$ 30.77	$ 15.20	$ 16.82
Smart Foundation Flex	$ 11.29	$ 15.29	$ 13.21	$ 18.19
Smart Foundation Plus	$ 11.31	$ 15.32	$ 13.24	$ 18.23
Smart Foundation VA	$ 11.40	$ 15.44	$ 13.34	$ 18.37
Number of Shares	11,059,772	69,552,813	3,346,563	6,477,555
Cost of Investments	$109,373,103	$1,977,693,631	$41,371,480	$127,111,415

* *The accumulated unit value for Diversifier II Non-Qualified in the Large Growth Stock Fund is $81.13*

The accompanying notes are an integral part of these financial statements.

	Large Cap Growth Fund	Large Core Growth Fund	Large Cap Value Fund	Large Core Value Fund
Assets:				
Investments at fair value	$25,998,619	$57,414,069	$109,953,298	$84,928,800
Dividends receivable	—	—	—	—
Receivable for securities sold	53,060	271,853	362,753	498,887
Liabilities:				
Payable for securities purchased	—	—	—	—
Total Net Assets	**$26,051,679**	**$57,685,922**	**$110,316,051**	**$85,427,687**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$ 8,334,254	$11,901,548	$ 26,857,616	$26,440,343
Diversifier II/Optimizer/Retirement Planner VA	1,085,380	21,330,670	28,221,406	11,352,804
Inflation Protector Variable Annuity	1,747,134	1,809,547	3,434,562	3,298,675
Olympia XT Advisor	—	—	—	—
Penn Freedom Advisor	—	—	—	—
Pennant Select	2,790,060	7,158,066	11,775,377	10,147,765
PennFreedom	5,759,767	7,797,931	21,922,643	18,500,679
Smart Foundation Flex	3,421,693	3,403,132	6,125,407	7,629,078
Smart Foundation Plus	2,099,199	2,772,794	7,655,244	3,631,375
Smart Foundation VA	814,192	1,512,234	4,323,796	4,426,968
Total Net Assets	**$26,051,679**	**$57,685,922**	**$110,316,051**	**$85,427,687**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ 12.77	$ 14.75	$ 17.44	$ 13.46
Diversifier II/Optimizer/Retirement Planner VA	$ 13.03	$ 14.91	$ 73.36	$ 13.61
Inflation Protector Variable Annuity	$ 14.80	$ 17.99	$ 16.00	$ 16.09
Olympia XT Advisor	$ —	$ —	$ —	$ —
Penn Freedom Advisor	$ —	$ —	$ —	$ —
Pennant Select	$ 12.86	$ 14.80	$ 17.59	$ 13.51
PennFreedom	$ 12.68	$ 14.69	$ 16.62	$ 13.41
Smart Foundation Flex	$ 13.82	$ 16.08	$ 14.76	$ 15.23
Smart Foundation Plus	$ 13.85	$ 16.12	$ 14.79	$ 15.26
Smart Foundation VA	$ 13.96	$ 16.24	$ 14.91	$ 15.38
Number of Shares	1,990,197	3,539,014	4,966,954	5,783,865
Cost of Investments	$20,653,636	$37,998,047	$ 84,804,390	$61,013,249

The accompanying notes are an integral part of these financial statements.

	Index 500 Fund	Mid Cap Growth Fund	Mid Cap Value Fund	Mid Core Value Fund
Assets:				
Investments at fair value	$244,079,806	$70,389,919	$105,815,171	$41,281,939
Dividends receivable	—	—	—	—
Receivable for securities sold	2,011,171	—	—	9,758
Liabilities:				
Payable for securities purchased	—	265,958	856,004	—
Total Net Assets	**$246,090,977**	**$70,123,961**	**$104,959,167**	**$41,291,697**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$ 62,539,965	$20,921,597	$ 31,882,851	$13,348,203
Diversifier II/Optimizer/Retirement Planner VA	18,648,896	7,522,536	11,133,167	1,787,391
Inflation Protector Variable Annuity	18,067,462	2,201,236	5,552,315	2,755,763
Olympia XT Advisor	—	—	—	—
Penn Freedom Advisor	—	—	—	—
Pennant Select	27,601,619	7,771,613	10,590,910	5,512,787
PennFreedom	65,261,156	21,098,016	18,238,190	9,256,879
Smart Foundation Flex	25,014,157	4,169,837	10,196,260	3,209,537
Smart Foundation Plus	14,393,707	3,878,536	11,823,100	3,254,557
Smart Foundation VA	14,564,015	2,560,590	5,542,374	2,166,580
Total Net Assets	**$246,090,977**	**$70,123,961**	**$104,959,167**	**$41,291,697**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ 17.44	$ 11.26	$ 29.66	$ 21.29
Diversifier II/Optimizer/Retirement Planner VA	$ 27.53	$ 24.68	$ 38.81	$ 21.73
Inflation Protector Variable Annuity	$ 18.37	$ 15.64	$ 16.54	$ 17.74
Olympia XT Advisor	$ —	$ —	$ —	$ —
Penn Freedom Advisor	$ —	$ —	$ —	$ —
Pennant Select	$ 17.59	$ 11.35	$ 29.91	$ 21.44
PennFreedom	$ 18.91	$ 18.12	$ 24.80	$ 21.15
Smart Foundation Flex	$ 16.06	$ 13.70	$ 15.17	$ 15.54
Smart Foundation Plus	$ 16.09	$ 13.73	$ 15.20	$ 15.57
Smart Foundation VA	$ 16.22	$ 13.84	$ 15.32	$ 15.69
Number of Shares	15,247,272	5,001,709	5,421,445	2,350,125
Cost of Investments	$176,257,200	$54,585,892	$ 79,823,282	$29,936,859

The accompanying notes are an integral part of these financial statements.

	SMID Cap Growth Fund	SMID Cap Value Fund	Small Cap Growth Fund	Small Cap Value Fund
Assets:				
Investments at fair value	$39,884,422	$41,345,378	$51,125,158	$150,116,022
Dividends receivable	—	—	—	—
Receivable for securities sold	—	—	—	—
Liabilities:				
Payable for securities purchased	166,352	271,053	170,033	292,038
Total Net Assets	**$39,718,070**	**$41,074,325**	**$50,955,125**	**$149,823,984**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$ 6,202,037	$ 6,558,320	$16,843,407	$ 52,569,880
Diversifier II/Optimizer/Retirement Planner VA	861,458	998,264	8,830,733	14,553,605
Inflation Protector Variable Annuity	4,462,692	6,544,468	2,172,733	7,375,162
Olympia XT Advisor	—	—	—	—
Penn Freedom Advisor	—	—	—	—
Pennant Select	3,078,693	2,843,825	5,370,950	15,537,082
PennFreedom	11,213,834	11,420,898	7,896,823	30,257,418
Smart Foundation Flex	7,817,927	6,287,535	3,609,336	11,220,178
Smart Foundation Plus	3,215,348	3,364,141	3,760,555	11,494,198
Smart Foundation VA	2,866,081	3,056,874	2,470,588	6,816,461
Total Net Assets	**$39,718,070**	**$41,074,325**	**$50,955,125**	**$149,823,984**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ 17.55	$ 17.88	$ 19.05	$ 38.53
Diversifier II/Optimizer/Retirement Planner VA	$ 17.75	$ 18.08	$ 35.83	$ 56.82
Inflation Protector Variable Annuity	$ 17.10	$ 16.97	$ 14.93	$ 17.96
Olympia XT Advisor	$ —	$ —	$ —	$ —
Penn Freedom Advisor	$ —	$ —	$ —	$ —
Pennant Select	$ 17.62	$ 17.95	$ 19.21	$ 38.86
PennFreedom	$ 17.49	$ 17.82	$ 11.64	$ 29.96
Smart Foundation Flex	$ 15.15	$ 15.61	$ 14.41	$ 15.13
Smart Foundation Plus	$ 15.18	$ 15.64	$ 14.44	$ 15.16
Smart Foundation VA	$ 15.30	$ 15.77	$ 14.55	$ 15.28
Number of Shares	2,041,011	2,082,877	1,782,271	5,653,735
Cost of Investments	$37,966,970	$37,324,808	$39,763,851	$103,044,550

The accompanying notes are an integral part of these financial statements.

	Small Cap Index Fund	Developed International Index Fund	International Equity Fund	Emerging Markets Equity Fund
Assets:				
Investments at fair value	$47,564,709	$49,965,430	$216,943,454	$ 93,458,452
Dividends receivable	—	—	—	—
Receivable for securities sold	—	—	495,625	—
Liabilities:				
Payable for securities purchased	71,051	166,201	—	1,432,427
Total Net Assets	**$47,493,658**	**$49,799,229**	**$217,439,079**	**$ 92,026,025**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$ 8,239,545	$ 8,675,549	$ 74,913,122	$ 22,916,827
Diversifier II/Optimizer/Retirement Planner VA	477,381	622,877	23,343,405	4,092,498
Inflation Protector Variable Annuity	4,960,216	5,845,905	12,114,324	8,215,388
Olympia XT Advisor	—	—	—	—
Penn Freedom Advisor	—	—	—	—
Pennant Select	3,921,234	5,062,282	20,999,465	8,843,873
PennFreedom	15,539,375	16,352,742	52,232,116	31,928,863
Smart Foundation Flex	7,538,026	6,854,348	15,974,787	8,539,821
Smart Foundation Plus	2,590,128	1,914,952	11,437,543	3,744,520
Smart Foundation VA	4,227,753	4,470,574	6,424,317	3,744,235
Total Net Assets	**$47,493,658**	**$49,799,229**	**$217,439,079**	**$ 92,026,025**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ 15.15	$ 10.31	$ 20.50	$ 8.75
Diversifier II/Optimizer/Retirement Planner VA	$ 15.32	$ 10.42	$ 45.75	$ 8.85
Inflation Protector Variable Annuity	$ 16.74	$ 11.61	$ 13.84	$ 8.61
Olympia XT Advisor	$ —	$ —	$ —	$ —
Penn Freedom Advisor	$ —	$ —	$ —	$ —
Pennant Select	$ 15.21	$ 10.35	$ 20.67	$ 8.78
PennFreedom	$ 15.10	$ 10.27	$ 26.07	$ 8.72
Smart Foundation Flex	$ 14.61	$ 12.41	$ 12.83	$ 9.34
Smart Foundation Plus	$ 14.64	$ 12.43	$ 12.86	$ 9.36
Smart Foundation VA	$ 14.75	$ 12.53	$ 12.96	$ 9.44
Number of Shares	2,845,636	4,376,031	8,973,961	9,526,504
Cost of Investments	$41,792,403	$48,197,676	$169,291,203	$104,092,720

The accompanying notes are an integral part of these financial statements.

	Real Estate Securities Fund	Aggressive Allocation Fund	Moderately Aggressive Allocation Fund	Moderate Allocation Fund
Assets:				
Investments at fair value	$101,040,038	$58,706,955	$229,100,731	$331,158,724
Dividends receivable	—	—	—	—
Receivable for securities sold	690,660	118,730	9,286	—
Liabilities:				
Payable for securities purchased	—	—	—	380,207
Total Net Assets	**$101,730,698**	**$58,825,685**	**$229,110,017**	**$330,778,517**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$ 29,914,931	$12,181,174	$ 67,745,935	$ 69,442,247
Diversifier II/Optimizer/Retirement Planner VA	4,129,632	626,633	1,187,842	2,728,174
Inflation Protector Variable Annuity	9,834,948	11,321,575	29,963,704	41,616,231
Olympia XT Advisor	—	—	—	—
Penn Freedom Advisor	—	—	—	—
Pennant Select	9,964,101	5,214,456	26,961,686	47,685,347
PennFreedom	22,899,690	10,771,388	42,470,912	81,196,256
Smart Foundation Flex	10,399,933	7,914,081	33,288,595	38,888,934
Smart Foundation Plus	8,056,028	2,906,080	12,133,649	24,757,159
Smart Foundation VA	6,531,435	7,890,298	15,357,694	24,464,169
Total Net Assets	**$101,730,698**	**$58,825,685**	**$229,110,017**	**$330,778,517**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ 29.00	$ 13.64	$ 14.31	$ 13.27
Diversifier II/Optimizer/Retirement Planner VA	$ 29.61	$ 13.79	$ 14.47	$ 13.42
Inflation Protector Variable Annuity	$ 17.34	$ 14.83	$ 14.21	$ 13.27
Olympia XT Advisor	$ —	$ —	$ —	$ —
Penn Freedom Advisor	$ —	$ —	$ —	$ —
Pennant Select	$ 29.20	$ 13.69	$ 14.37	$ 13.32
PennFreedom	$ 28.81	$ 13.59	$ 14.26	$ 13.22
Smart Foundation Flex	$ 15.42	$ 13.78	$ 13.21	$ 12.37
Smart Foundation Plus	$ 15.45	$ 13.81	$ 13.24	$ 12.39
Smart Foundation VA	$ 15.57	$ 13.92	$ 13.35	$ 12.49
Number of Shares	5,368,375	3,953,339	14,733,763	23,034,716
Cost of Investments	$ 76,506,064	$50,092,802	$188,205,997	$270,365,195

The accompanying notes are an integral part of these financial statements.

	Moderately Conservative Allocation Fund	Conservative Allocation Fund	High Income Bond Fund II†	Financial Services Fund††
Assets:				
Investments at fair value	$98,361,549	$58,189,817	$ —	$ —
Dividends receivable	—	—	—	—
Receivable for securities sold	—	—	—	—
Liabilities:				
Payable for securities purchased	61,746	49,415	—	—
Total Net Assets	**$98,299,803**	**$58,140,402**	**$ —**	**$ —**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$25,633,715	$15,192,873	$ —	$ —
Diversifier II/Optimizer/Retirement Planner VA	2,064,721	270,021	—	—
Inflation Protector Variable Annuity	11,272,387	4,329,052	—	—
Olympia XT Advisor	—	—	—	—
Penn Freedom Advisor	—	—	—	—
Pennant Select	14,489,732	9,814,170	—	—
PennFreedom	22,390,601	18,821,372	—	—
Smart Foundation Flex	7,082,503	2,730,972	—	—
Smart Foundation Plus	7,793,244	3,433,684	—	—
Smart Foundation VA	7,572,900	3,548,258	—	—
Total Net Assets	**$98,299,803**	**$58,140,402**	**$ —**	**$ —**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ 12.64	$ 11.86	$ —	$ —
Diversifier II/Optimizer/Retirement Planner VA	$ 12.78	$ 11.99	$ —	$ —
Inflation Protector Variable Annuity	$ 12.29	$ 11.16	$ —	$ —
Olympia XT Advisor	$ —	$ —	$21.39	$10.07
Penn Freedom Advisor	$ —	$ —	$20.82	$ 9.80
Pennant Select	$ 12.68	$ 11.90	$ —	$ —
PennFreedom	$ 12.59	$ 11.81	$ —	$ —
Smart Foundation Flex	$ 11.57	$ 10.68	$ —	$ —
Smart Foundation Plus	$ 11.59	$ 10.70	$ —	$ —
Smart Foundation VA	$ 11.68	$ 10.79	$ —	$ —
Number of Shares	7,227,927	4,567,196	—	—
Cost of Investments	$87,859,442	$55,053,783	$ —	$ —

† *High Income Bond III Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
†† *Financial Services Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*

	Health Care Fund†††	Russell 2000 1.5x Strategy Fund	Nova Fund††††	NASDAQ-100 Fund†††††
Assets:				
Investments at fair value	$ —	$19,010	$ —	$ —
Dividends receivable	—	—	—	—
Receivable for securities sold	—	1	—	—
Liabilities:				
Payable for securities purchased	—	—	—	—
Total Net Assets	**$ —**	**$19,011**	**$ —**	**$ —**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$ —	$ —	$ —	$ —
Diversifier II/Optimizer/Retirement Planner VA	—	—	—	—
Inflation Protector Variable Annuity	—	—	—	—
Olympia XT Advisor	—	—	—	—
Penn Freedom Advisor	—	19,011	—	—
Pennant Select	—	—	—	—
PennFreedom	—	—	—	—
Smart Foundation Flex	—	—	—	—
Smart Foundation Plus	—	—	—	—
Smart Foundation VA	—	—	—	—
Total Net Assets	**$ —**	**$19,011**	**$ —**	**$ —**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ —	$ —	$ —	$ —
Diversifier II/Optimizer/Retirement Planner VA	$ —	$ —	$ —	$ —
Inflation Protector Variable Annuity	$ —	$ —	$ —	$ —
Olympia XT Advisor	$27.30	$ 17.85	$18.25	$27.43
Penn Freedom Advisor	$26.56	$ 17.37	$17.76	$26.69
Pennant Select	$ —	$ —	$ —	$ —
PennFreedom	$ —	$ —	$ —	$ —
Smart Foundation Flex	$ —	$ —	$ —	$ —
Smart Foundation Plus	$ —	$ —	$ —	$ —
Smart Foundation VA	$ —	$ —	$ —	$ —
Number of Shares	—	387	—	—
Cost of Investments	$ —	$ 5,605	$ —	$ —

††† *Health Care Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
†††† *Nova Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
††††† *NASDAQ-100 Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*

	Technology Fund††††††	Inverse S&P 500 Strategy Fund†††††††	Government Long Bond 1.2x Strategy Fund	U.S. Government Money Market Fund
Assets:				
Investments at fair value	$ —	$ —	$108,363	$4,321
Dividends receivable	—	—	—	—
Receivable for securities sold	—	—	4	—
Liabilities:				
Payable for securities purchased	—	—	—	—
Total Net Assets	**$ —**	**$ —**	**$108,367**	**$4,321**
TOTAL NET ASSETS REPRESENTED BY:				
Net Assets of Contract owners:				
Commander/Enhanced Credit VA	$ —	$ —	$ —	$ —
Diversifier II/Optimizer/Retirement Planner VA	—	—	—	—
Inflation Protector Variable Annuity	—	—	—	—
Olympia XT Advisor	—	—	108,367	—
Penn Freedom Advisor	—	—	—	4,321
Pennant Select	—	—	—	—
PennFreedom	—	—	—	—
Smart Foundation Flex	—	—	—	—
Smart Foundation Plus	—	—	—	—
Smart Foundation VA	—	—	—	—
Total Net Assets	**$ —**	**$ —**	**$108,367**	**$4,321**
Accumulation of Unit Values:				
Commander/Enhanced Credit VA	$ —	$ —	$ —	$ —
Diversifier II/Optimizer/Retirement Planner VA	$ —	$ —	$ —	$ —
Inflation Protector Variable Annuity	$ —	$ —	$ —	$ —
Olympia XT Advisor	$17.97	$2.32	$ 20.48	$ 9.25
Penn Freedom Advisor	$17.48	$2.26	$ 19.93	$ 9.01
Pennant Select	$ —	$ —	$ —	$ —
PennFreedom	$ —	$ —	$ —	$ —
Smart Foundation Flex	$ —	$ —	$ —	$ —
Smart Foundation Plus	$ —	$ —	$ —	$ —
Smart Foundation VA	$ —	$ —	$ —	$ —
Number of Shares	—	—	3,645	4,321
Cost of Investments	$ —	$ —	$112,294	$4,321

†††††† *Technology Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
††††††† *Inverse S&P 500 Strategy Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*

	Utilites Fund††††††††	Equity Income Portfolio II	International Stock Portfolio
Assets:			
Investments at fair value	$ —	$152,672	$43,887
Dividends receivable	—	—	—
Receivable for securities sold	—	6	2
Liabilities:			
Payable for securities purchased	—	—	—
Total Net Assets	**$ —**	**$152,678**	**$43,889**
TOTAL NET ASSETS REPRESENTED BY:			
Net Assets of Contract owners:			
Commander/Enhanced Credit VA	$ —	$ —	$ —
Diversifier II/Optimizer/Retirement Planner VA	—	—	—
Inflation Protector Variable Annuity	—	—	—
Olympia XT Advisor	—	152,678	43,889
Penn Freedom Advisor	—	—	—
Pennant Select	—	—	—
PennFreedom	—	—	—
Smart Foundation Flex	—	—	—
Smart Foundation Plus	—	—	—
Smart Foundation VA	—	—	—
Total Net Assets	**$ —**	**$152,678**	**$43,889**
Accumulation of Unit Values:			
Commander/Enhanced Credit VA	$ —	$ —	$ —
Diversifier II/Optimizer/Retirement Planner VA	$ —	$ —	$ —
Inflation Protector Variable Annuity	$ —	$ —	$ —
Olympia XT Advisor	$17.08	$ 16.87	$ 15.97
Penn Freedom Advisor	$16.62	$ 16.65	$ 15.54
Pennant Select	$ —	$ —	$ —
PennFreedom	$ —	$ —	$ —
Smart Foundation Flex	$ —	$ —	$ —
Smart Foundation Plus	$ —	$ —	$ —
Smart Foundation VA	$ —	$ —	$ —
Number of Shares	—	5,712	2,992
Cost of Investments	$ —	$164,658	$48,803

†††††††† *Utilities Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*

The accompanying notes are an integral part of these financial statements.

	Total	Money Market Fund	Limited Maturity Bond Fund	Quality Bond Fund	High Yield Bond Fund
Net Investment Income (Loss):					
Dividends	$ 9,690	$ 7,253	$ —	$ —	$ —
Expense:					
Mortality and expense risk and administration charges	80,003,862	950,783	1,255,396	3,467,580	1,680,440
Net investment income (loss)	(79,994,172)	(943,530)	(1,255,396)	(3,467,580)	(1,680,440)
Net Realized and Unrealized Gains (Losses) on Investments:					
Realized gain (loss) from redemption of fund shares	246,121,541	—	536,816	5,125,942	5,831,631
Realized gains distributions	13,898	—	—	—	—
Net realized gain (loss) from investment transactions	246,135,439	—	536,816	5,125,942	5,831,631
Net change in unrealized gain (loss) of investments	(130,249,179)	—	251,058	(4,049,074)	(9,791,500)
Net realized and unrealized gain (loss) on investments	115,886,260	—	787,874	1,076,868	(3,959,869)
Net increase (decrease) in net assets resulting from operations	**$ 35,892,088**	**$(943,530)**	**$ (467,522)**	**$(2,390,712)**	**$(5,640,309)**

The accompanying notes are an integral part of these financial statements.

	Flexibly Managed Fund	Balanced Fund	Large Growth Stock Fund	Large Cap Growth Fund	Large Core Growth Fund
Net Investment Income (Loss):					
Dividends	$ —	$ —	$ —	$ —	$ —
Expense:					
Mortality and expense risk and administration charges	37,652,224	737,604	2,490,282	343,293	796,244
Net investment income (loss)	(37,652,224)	(737,604)	(2,490,282)	(343,293)	(796,244)
Net Realized and Unrealized Gains (Losses) on Investments:					
Realized gain (loss) from redemption of fund shares	85,965,819	3,359,324	14,649,596	1,170,171	4,763,795
Realized gains distributions	—	—	—	—	—
Net realized gain (loss) from investment transactions	85,965,819	3,359,324	14,649,596	1,170,171	4,763,795
Net change in unrealized gain (loss) of investments	48,495,709	(2,976,456)	3,831,379	(1,216,812)	(3,737,860)
Net realized and unrealized gain (loss) on investments	134,461,528	382,868	18,480,975	(46,641)	1,025,935
Net increase (decrease) in net assets resulting from operations	**$ 96,809,304**	**$ (354,736)**	**$15,990,693**	**$ (389,934)**	**$ 229,691**

The accompanying notes are an integral part of these financial statements.

	Large Cap Value Fund	Large Core Value Fund	Index 500 Fund	Mid Cap Growth Fund	Mid Cap Value Fund
Net Investment Income (Loss):					
Dividends	$ —	$ —	$ —	$ —	$ —
Expense:					
Mortality and expense risk and administration charges	1,519,974	1,173,825	3,250,891	975,360	1,511,177
Net investment income (loss)	(1,519,974)	(1,173,825)	(3,250,891)	(975,360)	(1,511,177)
Net Realized and Unrealized Gains (Losses) on Investments:					
Realized gain (loss) from redemption of fund shares	7,232,365	7,346,856	18,042,704	4,761,062	10,470,232
Realized gains distributions	—	—	—	—	—
Net realized gain (loss) from investment transactions	7,232,365	7,346,856	18,042,704	4,761,062	10,470,232
Net change in unrealized gain (loss) of investments	(12,285,121)	(8,162,253)	(15,672,125)	(8,945,645)	(19,585,287)
Net realized and unrealized gain (loss) on investments	(5,052,756)	(815,397)	2,370,579	(4,184,583)	(9,115,055)
Net increase (decrease) in net assets resulting from operations	**$ (6,572,730)**	**$(1,989,222)**	**$ (880,312)**	**$(5,159,943)**	**$(10,626,232)**

The accompanying notes are an integral part of these financial statements.

	Mid Core Value Fund	SMID Cap Growth Fund	SMID Cap Value Fund	Small Cap Growth Fund	Small Cap Value Fund
Net Investment Income (Loss):					
Dividends	$ —	$ —	$ —	$ —	$ —
Expense:					
Mortality and expense risk and administration charges	600,747	540,978	582,113	691,027	2,075,698
Net investment income (loss)	(600,747)	(540,978)	(582,113)	(691,027)	(2,075,698)
Net Realized and Unrealized Gains (Losses) on Investments:					
Realized gain (loss) from redemption of fund shares	6,520,664	2,649,277	2,147,142	3,514,771	10,312,265
Realized gains distributions	—	—	—	—	—
Net realized gain (loss) from investment transactions	6,520,664	2,649,277	2,147,142	3,514,771	10,312,265
Net change in unrealized gain (loss) of investments	(7,245,051)	(3,559,908)	(4,642,725)	(3,263,014)	(19,043,664)
Net realized and unrealized gain (loss) on investments	(724,387)	(910,631)	(2,495,583)	251,757	(8,731,399)
Net increase (decrease) in net assets resulting from operations	**$(1,325,134)**	**$(1,451,609)**	**$(3,077,696)**	**$ (439,270)**	**$(10,807,097)**

The accompanying notes are an integral part of these financial statements.

	Small Cap Index Fund	Developed International Index Fund	International Equity Fund	Emerging Markets Equity Fund	Real Estate Securities Fund
Net Investment Income (Loss):					
Dividends	$ —	$ —	$ —	$ —	$ —
Expense:					
Mortality and expense risk and administration charges	651,521	684,425	2,900,316	1,344,035	1,325,920
Net investment income (loss)	(651,521)	(684,425)	(2,900,316)	(1,344,035)	(1,325,920)
Net Realized and Unrealized Gains (Losses) on Investments:					
Realized gain (loss) from redemption of fund shares	2,122,742	1,703,664	6,448,969	1,048,755	8,982,798
Realized gains distributions	—	—	—	—	—
Net realized gain (loss) from investment transactions	2,122,742	1,703,664	6,448,969	1,048,755	8,982,798
Net change in unrealized gain (loss) of investments	(4,645,547)	(2,534,781)	1,283,558	(12,057,779)	(3,904,964)
Net realized and unrealized gain (loss) on investments	(2,522,805)	(831,117)	7,732,527	(11,009,024)	5,077,834
Net increase (decrease) in net assets resulting from operations	**$(3,174,326)**	**$(1,515,542)**	**$ 4,832,211**	**$(12,353,059)**	**$ 3,751,914**

The accompanying notes are an integral part of these financial statements.

	Aggressive Allocation Fund	Moderately Aggressive Allocation Fund	Moderate Allocation Fund	Moderately Conservative Allocation Fund	Conservative Allocation Fund
Net Investment Income (Loss):					
Dividends	$ —	$ —	$ —	$ —	$ —
Expense:					
Mortality and expense risk and administration charges	832,265	3,196,663	4,626,346	1,366,488	775,884
Net investment income (loss)	(832,265)	(3,196,663)	(4,626,346)	(1,366,488)	(775,884)
Net Realized and Unrealized Gains (Losses) on Investments:					
Realized gain (loss) from redemption of fund shares	3,138,802	8,954,148	13,429,479	4,254,299	1,629,379
Realized gains distributions	—	—	—	—	—
Net realized gain (loss) from investment transactions	3,138,802	8,954,148	13,429,479	4,254,299	1,629,379
Net change in unrealized gain (loss) of investments	(4,124,919)	(11,600,146)	(15,112,345)	(4,395,187)	(1,535,253)
Net realized and unrealized gain (loss) on investments	(986,117)	(2,645,998)	(1,682,866)	(140,888)	94,126
Net increase (decrease) in net assets resulting from operations	**$(1,818,382)**	**$ (5,842,661)**	**$ (6,309,212)**	**$(1,507,376)**	**$ (681,758)**

The accompanying notes are an integral part of these financial statements.

	High Income Bond Fund II†	Financial Services Fund††	Health Care Fund†††	Russell 2000 1.5x Strategy Fund	Nova Fund††††
Net Investment Income (Loss):					
Dividends	$ —	$ —	$ —	$ —	$ —
Expense:					
Mortality and expense risk and administration charges	—	—	—	306	751
Net investment income (loss)	—	—	—	(306)	(751)
Net Realized and Unrealized Gains (Losses) on Investments:					
Realized gain (loss) from redemption of fund shares	—	—	—	273	6,501
Realized gains distributions	—	—	—	—	—
Net realized gain (loss) from investment transactions	—	—	—	273	6,501
Net change in unrealized gain (loss) of investments	—	—	—	(2,172)	(902)
Net realized and unrealized gain (loss) on investments	—	—	—	(1,899)	5,599
Net increase (decrease) in net assets resulting from operations	**$ —**	**$ —**	**$ —**	**$(2,205)**	**$4,848**

† *High Income Bond III Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
†† *Financial Services Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
††† *Health Care Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
†††† *Nova Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*

The accompanying notes are an integral part of these financial statements.

	NASDAQ-100 Fund†††††	Technology Fund††††††	Inverse S&P 500 Strategy Fund†††††††	Government Long Bond 1.2x Strategy Fund	U.S. Government Money Market Fund
Net Investment Income (Loss):					
Dividends	$ —	$ —	$ —	$ 495	$ —
Expense:					
Mortality and expense risk and administration charges	1,111	177	—	570	63
Net investment income (loss)	(1,111)	(177)	—	(75)	(63)
Net Realized and Unrealized Gains (Losses) on Investments:					
Realized gain (loss) from redemption of fund shares	2,167	(858)	—	(37)	—
Realized gains distributions	9,411	171	—	—	—
Net realized gain (loss) from investment transactions	11,578	(687)	—	(37)	—
Net change in unrealized gain (loss) of investments	428	—	—	(3,927)	—
Net realized and unrealized gain (loss) on investments	12,006	(687)	—	(3,964)	—
Net increase (decrease) in net assets resulting from operations	**$10,895**	**$(864)**	**$ —**	**$(4,039)**	**$(63)**

††††† *NASDAQ-100 Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
†††††† *Technology Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
††††††† *Inverse S&P 500 Strategy Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*

The accompanying notes are an integral part of these financial statements.

	Utilites Fund††††††††	Equity Income Portfolio II	International Stock Portfolio
Net Investment Income (Loss):			
Dividends	$ —	$ 1,506	$ 436
Expense:			
Mortality and expense risk and administration charges	—	793	592
Net investment income (loss)	—	713	(156)
Net Realized and Unrealized Gains (Losses) on Investments:			
Realized gain (loss) from redemption of fund shares	—	(153)	181
Realized gains distributions	—	3,445	871
Net realized gain (loss) from investment transactions	—	3,292	1,052
Net change in unrealized gain (loss) of investments	—	(11,980)	(4,914)
Net realized and unrealized gain (loss) on investments	—	(8,688)	(3,862)
Net increase (decrease) in net assets resulting from operations	**$ —**	**$ (7,975)**	**$(4,018)**

†††††††† *Utilities Fund held no assets at December 31, 2014 in Account III. However, the fund is an investment option.*

	Total		Money Market Fund		Limited Maturity Bond Fund	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (79,994,172)	$ (73,963,521)	$ (943,530)	$ (1,141,964)	$ (1,255,396)	$ (1,223,590)
Net realized gains (losses) from investment transactions	246,135,439	225,832,705	—	—	536,816	455,946
Net change in unrealized gain (loss) of investments	(130,249,179)	266,402,296	—	—	251,058	(310,196)
Net increase (decrease) in net assets resulting from operations	35,892,088	418,271,480	(943,530)	(1,141,964)	(467,522)	(1,077,840)
Variable Annuity Activities:						
Purchase payments	417,235,278	431,336,706	12,566,363	8,019,846	4,329,864	4,910,573
Surrender benefits	(399,904,611)	(373,062,382)	(20,285,511)	(26,204,744)	(8,486,909)	(7,809,384)
Net transfers	151,042,523	156,443,129	1,187,110	28,434,155	1,239,701	14,478,404
Payments for supplementary contracts without life contingency	(5,261)	(5,180)	—	—	—	—
Payments for supplementary contracts with life contingency	(81,156)	(102,295)	—	—	—	—
Contract administration charges	(58,617,950)	(50,951,770)	(731,910)	(963,535)	(988,325)	(905,530)
Annuity benefits	(48,838,415)	(43,673,948)	(1,495,903)	(894,525)	(1,672,993)	(1,138,235)
Net increase (decrease) in net assets resulting from variable annuity activities	60,830,408	119,984,260	(8,759,851)	8,391,197	(5,578,662)	9,535,828
Total increase (decrease) in net assets	96,722,496	538,255,740	(9,703,381)	7,249,233	(6,046,184)	8,457,988
Net Assets:						
Beginning of year	5,927,019,196	5,388,763,456	84,205,368	76,956,135	99,241,901	90,783,913
End of year	**$6,023,741,692**	**$5,927,019,196**	**$ 74,501,987**	**$ 84,205,368**	**$ 93,195,717**	**$ 99,241,901**

	Quality Bond Fund		High Yield Bond Fund		Flexibly Managed Fund	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (3,467,580)	$ (3,559,785)	$ (1,680,440)	$ (1,717,984)	$ (37,652,224)	$ (32,656,996)
Net realized gains (losses) from investment transactions	5,125,942	6,938,593	5,831,631	8,299,616	85,965,819	71,544,217
Net change in unrealized gain (loss) of investments	(4,049,074)	6,738,279	(9,791,500)	(5,994,467)	48,495,709	212,607,950
Net increase (decrease) in net assets resulting from operations	(2,390,712)	10,117,087	(5,640,309)	587,165	96,809,304	251,495,171
Variable Annuity Activities:						
Purchase payments	16,271,130	12,825,145	5,867,039	8,374,201	243,489,357	232,381,536
Surrender benefits	(22,731,984)	(20,413,631)	(10,663,254)	(9,601,973)	(169,065,644)	(152,930,949)
Net transfers	3,689,616	(12,131,143)	(616,031)	4,042,063	128,374,206	78,675,222
Payments for supplementary contracts without life contingency	(287)	(297)	(413)	(440)	(1,842)	(1,787)
Payments for supplementary contracts with life contingency	—	—	(2,129)	(2,215)	(22,353)	(27,415)
Contract administration charges	(2,445,794)	(2,410,297)	(1,191,617)	(1,133,432)	(27,490,545)	(22,233,504)
Annuity benefits	(2,386,416)	(2,928,064)	(995,201)	(1,366,359)	(23,160,582)	(19,417,882)
Net increase (decrease) in net assets resulting from variable annuity activities	(7,603,735)	(25,058,287)	(7,601,606)	311,845	152,122,597	116,445,221
Total increase (decrease) in net assets	(9,994,447)	(14,941,200)	(13,241,915)	899,010	248,931,901	367,940,392
Net Assets:						
Beginning of year	267,380,170	282,321,370	130,586,100	129,687,090	2,675,763,880	2,307,823,488
End of year	**$ 257,385,723**	**$ 267,380,170**	**$117,344,185**	**$130,586,100**	**$2,924,695,781**	**$2,675,763,880**

The accompanying notes are an integral part of these financial statements.

	Balanced Fund		Large Growth Stock Fund		Large Cap Growth Fund	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (737,604)	$ (721,492)	$ (2,490,282)	$ (2,179,299)	$ (343,293)	$ (317,028)
Net realized gains (losses) from investment transactions	3,359,324	3,282,007	14,649,596	11,739,490	1,170,171	1,678,197
Net change in unrealized gain (loss) of investments	(2,976,456)	1,896,190	3,831,379	1,935,100	(1,216,812)	950,434
Net increase (decrease) in net assets resulting from operations	(354,736)	4,456,705	15,990,693	11,495,291	(389,934)	2,311,603
Variable Annuity Activities:						
Purchase payments	1,944,237	2,946,778	12,385,027	14,270,380	2,184,489	2,160,387
Surrender benefits	(4,265,866)	(4,137,305)	(10,912,038)	(8,932,118)	(1,758,865)	(1,771,839)
Net transfers	67,558	1,322,108	339,244	3,363,527	756,977	(1,300,294)
Payments for supplementary contracts without life contingency	—	—	(1,060)	(993)	—	—
Payments for supplementary contracts with life contingency	—	—	—	—	—	—
Contract administration charges	(470,364)	(492,751)	(1,592,768)	(1,311,567)	(227,742)	(200,701)
Annuity benefits	(546,695)	(820,649)	(1,095,264)	(1,190,141)	(73,219)	(171,727)
Net increase (decrease) in net assets resulting from variable annuity activities	(3,271,130)	(1,181,819)	(876,859)	6,199,088	881,640	(1,284,174)
Total increase (decrease) in net assets	(3,625,866)	3,274,886	15,113,834	17,694,379	491,706	1,027,429
Net Assets:						
Beginning of year	57,974,055	54,699,169	179,666,252	161,971,873	25,559,973	24,532,544
End of year	**$54,348,189**	**$57,974,055**	**$194,780,086**	**$179,666,252**	**$26,051,679**	**$25,559,973**

	Large Core Growth Fund		Large Cap Value Fund		Large Core Value Fund	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (796,244)	$ (794,738)	$ (1,519,974)	$ (1,495,644)	$ (1,173,825)	$ (1,156,338)
Net realized gains (losses) from investment transactions	4,763,795	4,287,172	7,232,365	6,279,910	7,346,856	5,377,568
Net change in unrealized gain (loss) of investments	(3,737,860)	383,576	(12,285,121)	6,261,725	(8,162,253)	4,144,946
Net increase (decrease) in net assets resulting from operations	229,691	3,876,010	(6,572,730)	11,045,991	(1,989,222)	8,366,176
Variable Annuity Activities:						
Purchase payments	2,155,201	2,927,840	3,031,613	4,036,727	3,901,780	3,204,546
Surrender benefits	(4,220,473)	(4,652,959)	(8,714,539)	(9,256,869)	(7,196,771)	(6,207,377)
Net transfers	(3,004,549)	(1,226,468)	2,568,915	5,056,268	(1,548,004)	140,127
Payments for supplementary contracts without life contingency	—	—	(1,027)	(1,042)	—	—
Payments for supplementary contracts with life contingency	—	—	(13,892)	(18,431)	(16,324)	(21,698)
Contract administration charges	(332,649)	(303,508)	(759,872)	(664,912)	(698,956)	(644,050)
Annuity benefits	(785,433)	(327,164)	(1,278,045)	(1,030,889)	(678,425)	(785,870)
Net increase (decrease) in net assets resulting from variable annuity activities	(6,187,903)	(3,582,259)	(5,166,847)	(1,879,148)	(6,236,700)	(4,314,322)
Total increase (decrease) in net assets	(5,958,212)	293,751	(11,739,577)	9,166,843	(8,225,922)	4,051,854
Net Assets:						
Beginning of year	63,644,134	63,350,383	122,055,628	112,888,785	93,653,609	89,601,755
End of year	**$57,685,922**	**$63,644,134**	**$110,316,051**	**$122,055,628**	**$85,427,687**	**$93,653,609**

The accompanying notes are an integral part of these financial statements.

	Index 500 Fund		Mid Cap Growth Fund		Mid Cap Value Fund	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (3,250,891)	$ (2,917,681)	$ (975,360)	$ (1,001,875)	$ (1,511,177)	$ (1,442,360)
Net realized gains (losses) from investment transactions	18,042,704	12,753,636	4,761,062	5,975,681	10,470,232	8,785,337
Net change in unrealized gain (loss) of investments	(15,672,125)	15,635,717	(8,945,645)	1,074,912	(19,585,287)	5,660,191
Net increase (decrease) in net assets resulting from operations	(880,312)	25,471,672	(5,159,943)	6,048,718	(10,626,232)	13,003,168
Variable Annuity Activities:						
Purchase payments	13,471,873	15,832,169	3,225,445	3,142,171	9,126,328	8,403,787
Surrender benefits	(15,312,101)	(12,433,741)	(5,312,993)	(4,936,960)	(9,355,879)	(7,164,452)
Net transfers	6,540,169	12,332,348	387,013	(2,389,342)	553,688	(2,266,670)
Payments for supplementary contracts without life contingency	(632)	(621)	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	—	—	—	—
Contract administration charges	(2,471,347)	(2,033,989)	(652,661)	(628,477)	(956,621)	(846,861)
Annuity benefits	(1,163,224)	(1,849,874)	(528,978)	(664,187)	(665,882)	(905,920)
Net increase (decrease) in net assets resulting from variable annuity activities	1,064,738	11,846,292	(2,882,174)	(5,476,795)	(1,298,366)	(2,780,116)
Total increase (decrease) in net assets	184,426	37,317,964	(8,042,117)	571,923	(11,924,598)	10,223,052
Net Assets:						
Beginning of year	245,906,551	208,588,587	78,166,078	77,594,155	116,883,765	106,660,713
End of year	**$246,090,977**	**$245,906,551**	**$70,123,961**	**$78,166,078**	**$104,959,167**	**$116,883,765**

	Mid Core Value Fund		SMID Cap Growth Fund		SMID Cap Value Fund	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (600,747)	$ (568,907)	$ (540,978)	$ (452,776)	$ (582,113)	$ (494,400)
Net realized gains (losses) from investment transactions	6,520,664	2,943,722	2,649,277	2,589,742	2,147,142	2,859,444
Net change in unrealized gain (loss) of investments	(7,245,051)	3,786,761	(3,559,908)	(2,431,204)	(4,642,725)	451,001
Net increase (decrease) in net assets resulting from operations	(1,325,134)	6,161,576	(1,451,609)	(294,238)	(3,077,696)	2,816,045
Variable Annuity Activities:						
Purchase payments	3,455,971	4,251,499	3,522,828	3,906,143	3,688,445	4,494,642
Surrender benefits	(4,210,199)	(3,269,131)	(1,843,540)	(1,164,393)	(1,478,180)	(1,576,365)
Net transfers	(5,588,753)	1,723,415	3,729,926	3,211,524	354,557	4,448,878
Payments for supplementary contracts without life contingency	—	—	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	—	—	—	—
Contract administration charges	(464,880)	(392,744)	(437,951)	(346,570)	(489,103)	(378,526)
Annuity benefits	(251,306)	(395,886)	(148,527)	(103,541)	(63,108)	(215,945)
Net increase (decrease) in net assets resulting from variable annuity activities	(7,059,167)	1,917,153	4,822,736	5,503,163	2,012,611	6,772,684
Total increase (decrease) in net assets	(8,384,301)	8,078,729	3,371,127	5,208,925	(1,065,085)	9,588,729
Net Assets:						
Beginning of year	49,675,998	41,597,269	36,346,943	31,138,018	42,139,410	32,550,681
End of year	**$ 41,291,697**	**$ 49,675,998**	**$39,718,070**	**$36,346,943**	**$ 41,074,325**	**$ 42,139,410**

The accompanying notes are an integral part of these financial statements.

	Small Cap Growth Fund		Small Cap Value Fund		Small Cap Index Fund	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (691,027)	$ (643,111)	$ (2,075,698)	$ (2,022,956)	$ (651,521)	$ (592,202)
Net realized gains (losses) from investment transactions	3,514,771	3,420,771	10,312,265	11,854,151	2,122,742	3,188,497
Net change in unrealized gain (loss) of investments	(3,263,014)	446,453	(19,043,664)	(765,732)	(4,645,547)	(1,132,393)
Net increase (decrease) in net assets resulting from operations	(439,270)	3,224,113	(10,807,097)	9,065,463	(3,174,326)	1,463,902
Variable Annuity Activities:						
Purchase payments	2,755,914	2,452,101	8,418,797	11,077,666	2,998,554	3,626,090
Surrender benefits	(4,713,363)	(2,541,777)	(10,264,940)	(9,380,868)	(1,775,001)	(1,267,440)
Net transfers	875,904	(281,866)	1,354,493	(1,170,234)	2,510,570	1,966,020
Payments for supplementary contracts without life contingency	—	—	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	(22,694)	(29,115)	—	—
Contract administration charges	(411,272)	(291,632)	(1,327,295)	(1,161,928)	(575,634)	(491,519)
Annuity benefits	(328,337)	(434,510)	(1,088,354)	(1,091,116)	(76,511)	(231,654)
Net increase (decrease) in net assets resulting from variable annuity activities	(1,821,154)	(1,097,684)	(2,929,993)	(1,755,595)	3,081,978	3,601,497
Total increase (decrease) in net assets	(2,260,424)	2,126,429	(13,737,090)	7,309,868	(92,348)	5,065,399
Net Assets:						
Beginning of year	53,215,549	51,089,120	163,561,074	156,251,206	47,586,006	42,520,607
End of year	**$50,955,125**	**$53,215,549**	**$149,823,984**	**$163,561,074**	**$ 47,493,658**	**$ 47,586,006**

	Developed International Index Fund		International Equity Fund		Emerging Markets Equity Fund	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (684,425)	$ (663,184)	$ (2,900,316)	$ (2,899,213)	$ (1,344,035)	$ (1,440,983)
Net realized gains (losses) from investment transactions	1,703,664	2,428,393	6,448,969	4,551,248	1,048,755	2,435,224
Net change in unrealized gain (loss) of investments	(2,534,781)	(5,505,479)	1,283,558	2,112,140	(12,057,779)	(7,781,549)
Net increase (decrease) in net assets resulting from operations	(1,515,542)	(3,740,270)	4,832,211	3,764,175	(12,353,059)	(6,787,308)
Variable Annuity Activities:						
Purchase payments	3,028,667	3,405,630	8,197,858	9,549,883	4,998,023	7,113,808
Surrender benefits	(2,090,980)	(1,836,834)	(13,474,879)	(13,532,619)	(5,539,782)	(5,812,579)
Net transfers	1,906,087	4,770,882	621,262	4,976,181	1,973,674	1,415,322
Payments for supplementary contracts without life contingency	—	—	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	—	—	—	—
Contract administration charges	(624,287)	(580,032)	(1,903,604)	(1,789,601)	(1,092,407)	(1,084,314)
Annuity benefits	(270,342)	(100,340)	(1,501,339)	(1,357,970)	(526,937)	(479,903)
Net increase (decrease) in net assets resulting from variable annuity activities	1,949,145	5,659,306	(8,060,702)	(2,154,126)	(187,429)	1,152,334
Total increase (decrease) in net assets	433,603	1,919,036	(3,228,491)	1,610,049	(12,540,488)	(5,634,974)
Net Assets:						
Beginning of year	49,365,626	47,446,590	220,667,570	219,057,521	104,566,513	110,201,487
End of year	**$49,799,229**	**$49,365,626**	**$217,439,079**	**$220,667,570**	**$ 92,026,025**	**$104,566,513**

The accompanying notes are an integral part of these financial statements.

	Real Estate Securities Fund		Aggressive Allocation Fund		Moderately Aggressive Allocation Fund		Moderate Allocation Fund	
	2015	2014	2015	2014	2015	2014	2015	2014
Operations:								
Net investment income (loss)	$ (1,325,920)	$ (1,171,341)	$ (832,265)	$ (771,711)	$ (3,196,663)	$ (3,071,962)	$ (4,626,346)	$ (4,616,042)
Net realized gains (losses) from investment transactions	8,982,798	11,042,956	3,138,802	2,698,411	8,954,148	9,374,266	13,429,479	12,194,971
Net change in unrealized gain (loss) of investments	(3,904,964)	12,443,897	(4,124,919)	1,113,434	(11,600,146)	4,877,037	(15,112,345)	6,908,168
Net increase (decrease) in net assets resulting from operations	3,751,914	22,315,512	(1,818,382)	3,040,134	(5,842,661)	11,179,341	(6,309,212)	14,487,097
Variable Annuity Activities:								
Purchase payments	6,888,671	6,795,331	4,497,601	7,671,586	11,303,153	14,795,889	12,466,439	21,298,425
Surrender benefits	(5,930,066)	(4,950,229)	(2,753,112)	(2,783,303)	(12,999,199)	(13,527,569)	(20,106,050)	(20,847,143)
Net transfers	(139,294)	(5,062,036)	(1,623,170)	577,015	543,870	9,695,716	523,127	3,586,891
Payments for supplementary contracts without life contingency	—	—	—	—	—	—	—	—
Payments for supplementary contracts with life contingency	(3,764)	(3,421)	—	—	—	—	—	—
Contract administration charges	(970,653)	(806,842)	(763,707)	(661,649)	(2,820,038)	(2,547,701)	(4,048,926)	(3,915,379)
Annuity benefits	(573,582)	(758,171)	(46,802)	(603,984)	(675,643)	(880,425)	(5,065,512)	(1,625,579)
Net increase (decrease) in net assets resulting from variable annuity activities	(728,688)	(4,785,368)	(689,190)	4,199,665	(4,647,857)	7,535,910	(16,230,922)	(1,502,785)
Total increase (decrease) in net assets	3,023,226	17,530,144	(2,507,572)	7,239,799	(10,490,518)	18,715,251	(22,540,134)	12,984,312
Net Assets:								
Beginning of year	98,707,472	81,177,328	61,333,257	54,093,458	239,600,535	220,885,284	353,318,651	340,334,339
End of year	**$101,730,698**	**$ 98,707,472**	**$58,825,685**	**$61,333,257**	**$229,110,017**	**$239,600,535**	**$330,778,517**	**$353,318,651**

	Moderately Conservative Allocation Fund		Conservative Allocation Fund		High Income Bond Fund II†		Financial Services Fund††	
	2015	2014	2015	2014	2015	2014	2015	2014
Operations:								
Net investment income (loss)	$ (1,366,488)	$ (1,394,020)	$ (775,884)	$ (829,932)	$ —	$ (1)	$ —	$ —
Net realized gains (losses) from investment transactions	4,254,299	4,791,593	1,629,379	2,007,588	—	52	—	—
Net change in unrealized gain (loss) of investments	(4,395,187)	531,161	(1,535,253)	389,746	—	(44)	—	—
Net increase (decrease) in net assets resulting from operations	(1,507,376)	3,928,734	(681,758)	1,567,402	—	7	—	—
Variable Annuity Activities:								
Purchase payments	5,380,433	6,469,206	1,684,178	992,721	—	—	—	—
Surrender benefits	(8,925,823)	(8,097,819)	(5,500,703)	(5,999,302)	—	(792)	—	—
Net transfers	1,408,178	(3,260,452)	2,056,091	1,315,599	—	—	—	—
Payments for supplementary contracts without life contingency	—	—	—	—	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	—	—	—	—	—	—
Contract administration charges	(1,084,980)	(1,103,576)	(591,445)	(626,013)	—	—	—	—
Annuity benefits	(1,013,097)	(964,091)	(682,758)	(939,347)	—	—	—	—
Net increase (decrease) in net assets resulting from variable annuity activities	(4,235,289)	(6,956,732)	(3,034,637)	(5,256,342)	—	(792)	—	—
Total increase (decrease) in net assets	(5,742,665)	(3,027,998)	(3,716,395)	(3,688,940)	—	(785)	—	—
Net Assets:								
Beginning of year	104,042,468	107,070,466	61,856,797	65,545,737	—	785	—	—
End of year	**$ 98,299,803**	**$104,042,468**	**$58,140,402**	**$61,856,797**	**$ —**	**$ —**	**$ —**	**$ —**

† *High Income Bond Fund II held no assets at December 31, 2014 and 2015 in Account III. However, the fund is an investment option.*
†† *Financial Services Fund held no assets at December 31, 2014 and 2015 in Account III. However, the fund is an investment option.*

The accompanying notes are an integral part of these financial statements.

	Health Care Fund†††		Russell 2000 1.5x Strategy Fund		Nova Fund††††	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ —	$ —	$ (306)	$ (1,073)	$ (751)	$ (1,550)
Net realized gains (losses) from investment transactions	—	—	273	4,683	6,501	22,605
Net change in unrealized gain (loss) of investments	—	—	(2,172)	(4,394)	(902)	(14,440)
Net increase (decrease) in net assets resulting from operations	—	—	(2,205)	(784)	4,848	6,615
Variable Annuity Activities:						
Purchase payments	—	—	—	—	—	—
Surrender benefits	—	—	—	(4,102)	(3,036)	(6,324)
Net transfers	—	—	—	(88,734)	(163,459)	35,980
Payments for supplementary contracts without life contingency	—	—	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	—	—	—	—
Contract administration charges	—	—	(69)	(161)	(90)	(186)
Annuity benefits	—	—	—	—	—	—
Net increase (decrease) in net assets resulting from variable annuity activities	—	—	(69)	(92,997)	(166,585)	29,470
Total increase (decrease) in net assets	—	—	(2,274)	(93,781)	(161,737)	36,085
Net Assets:						
Beginning of year	—	—	21,285	115,066	161,737	125,652
End of year	**$ —**	**$ —**	**$19,011**	**$ 21,285**	**$ —**	**$161,737**

	NASDAQ-100 Fund†††††		Technology Fund††††††		Inverse S&P 500 Strategy Fund†††††††	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (1,111)	$ (1,038)	$ (177)	$ —	$ —	$ —
Net realized gains (losses) from investment transactions	11,578	17,591	(687)	—	—	—
Net change in unrealized gain (loss) of investments	428	(5,813)	—	—	—	—
Net increase (decrease) in net assets resulting from operations	10,895	10,740	(864)	—	—	—
Variable Annuity Activities:						
Purchase payments	—	—	—	—	—	—
Surrender benefits	(5,122)	(4,200)	(1,019)	—	—	—
Net transfers	(166,047)	61,076	1,904	—	—	—
Payments for supplementary contracts without life contingency	—	—	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	—	—	—	—
Contract administration charges	(133)	(125)	(21)	—	—	—
Annuity benefits	—	—	—	—	—	—
Net increase (decrease) in net assets resulting from variable annuity activities	(171,302)	56,751	864	—	—	—
Total increase (decrease) in net assets	(160,407)	67,491	—	—	—	—
Net Assets:						
Beginning of year	160,407	92,916	—	—	—	—
End of year	**$ —**	**$160,407**	**$ —**	**$ —**	**$ —**	**$ —**

††† *Health Care Fund held no assets at December 31, 2014 and 2015 in Account III. However, the fund is an investment option.*
†††† *Nova Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
††††† *NASDAQ-100 Fund held no assets at December 31, 2015 in Account III. However, the fund is an investment option.*
†††††† *Technology Fund held no assets at December 31, 2014 and 2015 in Account III. However, the fund is an investment option.*
††††††† *Inverse S&P 500 Strategy Fund held no assets at December 31, 2014 and 2015 in Account III. However, the fund is an investment option.*

The accompanying notes are an integral part of these financial statements.

	Government Long Bond 1.2x Strategy Fund		U.S. Government Money Market Fund		Utilities Fund††††††††	
	2015	2014	2015	2014	2015	2014
Operations:						
Net investment income (loss)	$ (75)	$ (110)	$ (63)	$ (231)	$ —	$ —
Net realized gains (losses) from investment transactions	(37)	8,693	—	—	—	—
Net change in unrealized gain (loss) of investments	(3,927)	—	—	—	—	—
Net increase (decrease) in net assets resulting from operations	(4,039)	8,583	(63)	(231)	—	—
Variable Annuity Activities:						
Purchase payments	—	—	—	—	—	—
Surrender benefits	(1,442)	—	—	(2,255)	—	—
Net transfers	113,916	(8,535)	—	180	—	—
Payments for supplementary contracts without life contingency	—	—	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	—	—	—	—
Contract administration charges	(68)	(48)	(50)	(110)	—	—
Annuity benefits	—	—	—	—	—	—
Net increase (decrease) in net assets resulting from variable annuity activities	112,406	(8,583)	(50)	(2,185)	—	—
Total increase (decrease) in net assets	108,367	—	(113)	(2,416)	—	—
Net Assets:						
Beginning of year	—	—	4,434	6,850	—	—
End of year	**$108,367**	**$ —**	**$ 4,321**	**$ 4,434**	**$ —**	**$ —**

	Equity Income Portfolio II		International Stock Portfolio	
	2015	2014	2015	2014
Operations:				
Net investment income (loss)	$ 713	$ (3)	$ (156)	$ (1)
Net realized gains (losses) from investment transactions	3,292	600	1,052	134
Net change in unrealized gain (loss) of investments	(11,980)	(654)	(4,914)	(157)
Net increase (decrease) in net assets resulting from operations	(7,975)	(57)	(4,018)	(24)
Variable Annuity Activities:				
Purchase payments	—	—	—	—
Surrender benefits	(1,983)	(2,234)	(3,365)	(803)
Net transfers	162,731	1	51,343	1
Payments for supplementary contracts without life contingency	—	—	—	—
Payments for supplementary contracts with life contingency	—	—	—	—
Contract administration charges	(95)	—	(71)	—
Annuity benefits	—	—	—	—
Net increase (decrease) in net assets resulting from variable annuity activities	160,653	(2,233)	47,907	(802)
Total increase (decrease) in net assets	152,678	(2,290)	43,889	(826)
Net Assets:				
Beginning of year	—	2,290	—	826
End of year	**$152,678**	**$ —**	**$43,889**	**$ —**

†††††† *Utilities Fund held no assets at December 31, 2014 and 2015 in Account III. However, the fund is an investment option.*

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements — December 31, 2015

Note 1. Organization

Penn Mutual Variable Annuity Account III ("Account III") was established by The Penn Mutual Life Insurance Company ("Penn Mutual") under the provisions of the Pennsylvania Insurance Law. Account III is registered under the Investment Company Act of 1940, as amended, as a unit investment trust. Account III offers units to variable annuity contract owners to provide for the accumulation of value and for the payment of annuities. Account III contains contracts of the Diversifier II, Optimizer, Commander, Penn Freedom, Enhanced Credit Variable Annuity, Pennant Select, Olympia XT Advisor, Penn Freedom Advisor, Retirement Planner VA, Inflation Protector, Smart Foundation Flex, Smart Foundation Plus and Smart Foundation VA variable annuity products. Under applicable insurance law, the assets and liabilities of Account III are legally segregated from Penn Mutual's other assets and liabilities.

Note 2. Significant Accounting Policies

The preparation of the accompanying financial statements and notes are in accordance with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts from operations and contract transactions during the reporting period. Actual results could differ significantly with those estimates.

The significant accounting policies of Account III are as follows:

Investments — Assets of Account III are invested into subaccounts which are invested in shares of Penn Series Funds, Inc. ("Penn Series"), an affiliated entity of Penn Mutual: Money Market, Limited Maturity Bond, Quality Bond, High Yield Bond, Flexibly Managed, Balanced, Large Growth Stock, Large Cap Growth, Large Core Growth, Large Cap Value, Large Core Value, Index 500, Mid Cap Growth, Mid Cap Value, Mid Core Value, SMID Cap Growth, SMID Cap Value, Small Cap Growth, Small Cap Value, Small Cap Index, Developed International Index, International Equity, Emerging Markets Equity, Real Estate Securities, Aggressive Allocation, Moderately Aggressive Allocation, Moderate Allocation, Moderately Conservative Allocation and Conservative Allocation Funds; Federated Insurance Series ("Federated"): High Income Bond Fund II; Rydex Variable Trust ("Rydex"): Financial Services, Health Care, Russell 2000 1.5x Strategy, Nova, NASDAQ-100, Technology, Inverse S&P 500 Strategy, Government Long Bond 1.2x Strategy, U.S. Government Money Market, and Utilities Funds; T. Rowe Price Equity Series, Inc. ("T. Rowe"): Equity Income Portfolio II, and T. Rowe Price International Series, Inc. ("T. Rowe"): International Stock Portfolio.

Penn Series, Federated, Rydex, and T. Rowe are open-end diversified management investment companies.

REVISIONS The Financial Highlights within Note 6 for the years ended December 31, 2013, 2012, and 2011 have been adjusted to incorporate the correct expense ratios at the lowest and highest level of the range. The expense ratios for the V.I. Capital Appreciation, Federated, Rydex and T. Rowe Funds had incorrectly reflected the lowest and highest level of the range for all products within Account III for those respective years. The correction resulted in an increase in the lowest level expense ratio disclosed for each fund by 0.15% for the years ended December 31, 2013, 2012, and 2011 and a decrease in the highest level expense ratio disclosed for each fund by 0.05% for the years ended December 31, 2013, 2012 and 2011.

The investment in shares of these funds or portfolios is carried at fair market value as determined by the underlying net asset value of the respective funds or portfolios. Investment transactions are accounted for on a trade date basis. The resulting net unrealized gains (losses) are reflected in the Statements of Operations. Realized gains (losses) from securities transactions are determined for federal income tax and for financial reporting purposes on the FIFO cost basis.

The amounts shown as receivable for securities sold and payable for securities purchased on the Statements of Assets and Liabilities reflect transactions that occurred on the last business day of the reporting period. These amounts will be deposited to or withdrawn from the separate account in accordance with the contract owners' instructions on the first business day subsequent to the close of the period presented.

All dividend distributions received from the underlying Penn Series Funds are reinvested in additional shares of these Funds and are recorded by Account III on the ex-dividend date. The Penn Series Funds have utilized consent dividends to effectively distribute income for income tax purposes. Account III consents to treat these amounts as dividend income for

Note 2. Significant Accounting Policies (continued)

tax purposes although they are not paid by the underlying Penn Series Funds. Therefore, no dividend income is recorded in the statements of operations related to such consent dividends.

For the year ended December 31, 2015, consent dividends in Account III were:

	Consent Dividends
Limited Maturity Bond Fund	$ 1,430,524
Quality Bond Fund	11,825,402
High Yield Bond Fund	8,029,196
Flexibly Managed Fund	293,895,965
Balanced Fund	4,288,887
Large Growth Stock Fund	21,323,847
Large Cap Growth Fund	3,122,233
Large Core Growth Fund	5,384,592
Large Cap Value Fund	6,804,113
Large Core Value Fund	9,064,828
Index 500 Fund	8,681,832
Mid Cap Growth Fund	3,763,528
Mid Cap Value Fund	19,300,777
Mid Core Value Fund	4,041,178
SMID Cap Growth Fund	3,377,521
SMID Cap Value Fund	3,198,235
Small Cap Growth Fund	4,504,847
Small Cap Value Fund	10,123,871
Small Cap Index Fund	2,939,730
Developed International Index Fund	1,077,625
International Equity Fund	2,980,835
Emerging Markets Equity Fund	266,342
Real Estate Securities Fund	11,358,993
Aggressive Allocation Fund	8,360,306
Moderately Aggressive Allocation Fund	30,425,606
Moderate Allocation Fund	38,143,274
Moderately Conservative Allocation Fund	10,106,753
Conservative Allocation Fund	5,513,414

Consent dividends were utilized by the Penn Series Funds only.

Federal Income Taxes — The operations of Account III are included in the federal income tax return of Penn Mutual, which is taxed as a life insurance company under the provisions of the Internal Revenue Code ("IRC"). Under the current provisions of the IRC, Penn Mutual does not expect to incur federal income taxes on the earnings of Account III to the extent the earnings are credited under the contracts. Based on this, there is no charge to Account III for federal income taxes. Penn Mutual will review, as needed, the status of this policy in the event of changes in the tax law. A charge may be made in future years for any federal income taxes that would be attributable to the contracts.

Under the provisions of Section 817(h) of the IRC, a variable annuity contract will not be treated as an annuity contract for federal tax purposes for any period for which the investments of the segregated asset account on which the contract is based are not adequately diversified. The IRC provides that the "adequately diversified" requirement may be met if the underlying investments satisfy either a statutory safe harbor test or diversification requirements set forth in regulations issued by the Secretary of Treasury. Account III satisfies the current requirements of the regulations, and Penn Mutual intends that Account III will continue to meet such requirements.

Fair Value Measurement — 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 measurement is based on assumptions market participants would make in pricing an asset or liability. The inputs to valuation techniques used to measure fair value are prioritized by establishing a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to prices derived from unobservable inputs. An asset or

Note 2. Significant Accounting Policies (continued)

liability's classification within the fair value hierarchy is based on the lowest level of significant input to its fair value measurement. Account III has categorized its assets and liabilities into the three-level fair value hierarchy based upon the priority of the inputs. The following summarizes the types of assets and liabilities included within the three-level hierarchy:

Level 1 — Fair value is based on unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date. These generally provide the most reliable evidence and are used to measure fair value whenever available. Active markets are defined as having the following for the measured asset/liability: i) many transactions, ii) current prices, iii) price quotes not varying substantially among market makers. iv) narrow bid/ask spreads and v) most information publicly available. Prices are obtained from readily available sources for market transactions involving identical assts or liabilities.

Level 2 — Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. In circumstances where prices from pricing services are reviewed for reasonability but cannot be validated to observable market data as noted above, these security values are recorded in Level 3 in our fair value hierarchy.

Level 3 — Fair value is based on significant inputs that are unobservable for the asset or liability. These inputs reflect the Penn Mutual's assumptions about the assumptions market participants would use in pricing the asset or liability. These are typically less liquid fixed maturity securities with very limited trading activity. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Prices may also be based upon non-binding quotes from brokers or other market makers that are reviewed for reasonableness, based on Penn Mutual's understanding of the market.

The fair value of all the investments in Account III, are at net asset values and the investments are considered actively traded and fall within Level 1.

Note 3. Purchases and Sales of Investments

The following table shows aggregate cost of shares purchased and proceeds of shares redeemed of each fund or portfolio for the period ended December 31, 2015:

	Purchases	Sales
Money Market Fund	$ 49,383,929	$59,094,563
Limited Maturity Bond Fund	28,591,200	35,425,257
Quality Bond Fund	17,815,004	28,886,319
High Yield Bond Fund	9,153,756	18,435,802
Flexibly Managed Fund	190,505,221	76,034,852
Balanced Fund	2,916,294	6,925,028
Large Growth Stock Fund	14,528,570	17,895,711
Large Cap Growth Fund	3,108,993	2,570,646
Large Core Growth Fund	1,855,948	8,840,095
Large Cap Value Fund	6,116,900	12,803,721
Large Core Value Fund	5,824,422	13,234,948
Index 500 Fund	18,444,140	20,630,293
Mid Cap Growth Fund	4,492,097	8,349,630
Mid Cap Value Fund	8,712,863	11,522,406
Mid Core Value Fund	2,998,662	10,658,576
SMID Cap Growth Fund	10,251,333	5,969,576
SMID Cap Value Fund	5,524,120	4,093,622
Small Cap Growth Fund	5,174,677	7,686,858
Small Cap Value Fund	9,321,096	14,326,787
Small Cap Index Fund	6,010,983	3,580,526
Developed International Index Fund	7,086,641	5,821,920
International Equity Fund	9,088,066	20,049,085
Emerging Markets Equity Fund	8,376,003	9,907,466
Real Estate Securities Fund	11,080,510	13,135,118
Aggressive Allocation Fund	6,348,246	7,869,701
Moderately Aggressive Allocation Fund	12,599,230	20,443,749

Note 3. Purchases and Sales of Investments (continued)

	Purchases	Sales
Moderate Allocation Fund	$10,500,976	$31,358,243
Moderately Conservative Allocation Fund	11,360,009	16,961,786
Conservative Allocation Fund	7,663,675	11,474,195
High Income Bond Fund II	—	—
Financial Services Fund	—	—
Health Care Fund	—	—
Russell 2000 1.5x Strategy Fund	—	374
Nova Fund	—	167,336
NASDAQ-100 Fund	—	172,413
Technology Fund	33,436	32,748
Inverse S&P 500 Strategy Fund	—	—
Government Long Bond 1.2x Strategy Fund	114,166	2,329
U.S. Government Money Market Fund	—	113
Utilities Fund	—	—
Equity Income Portfolio II	163,094	3,233
International Stock Portfolio	67,253	19,938

Note 4. Related Party Transactions and Contract Charges

Penn Mutual received $138,621,812 and $124,924,481 from Account III for mortality and risk expense, contract administration and certain other charges for the years ended December 31, 2015 and 2014. These amounts charged include those assessed through a reduction in unit values as well as those assessed through the redemption of units. Additionally, Penn Series pays Penn Mutual and its affiliates fees for investment advisory and administrative services.

Certain product charges are reflected as a reduction in the value of the units held by the contract owner. These are stated as a percentage of the account value as follows:

Products	Mortality & Risk Expense	Contract Administration	Maximum Supplemental Rider Charge
Diversifier II/Optimizer	1.25%	None	N/A
Commander	1.25%	0.15%	0.95%
Penn Freedom	1.30%	0.15%	0.95%
Enhanced Credit Variable Annuity	1.25%	0.15%	0.60%
Pennant Select	1.20%	0.15%	0.95%
Olympia XT Advisor	1.25%	0.15%	0.60%
Penn Freedom Advisor	1.45%	0.15%	0.60%
Retirement Planner VA	1.25%	None	0.60%
Inflation Protector Variable Annuity	1.50%	0.15%	2.50%
Smart Foundation Flex	1.50%	0.15%	2.75%
Smart Foundation Plus	1.45%	0.15%	2.75%
Smart Foundation VA	1.25%	0.15%	2.75%

Certain product charges are reflected as a redemption of units held by the contract owner. These are as follows:

Products	Annual Contract Charge
Diversifier II/Optimizer	$30 maximum
Commander	If Account Value is < $100,000, the lesser of $40 or 2% of the Account Value
Penn Freedom	If Account Value is < $100,000, the lesser of $40 or 2% of the Account Value
Enhanced Credit Variable Annuity	If Account Value is < $100,000, the lesser of $40 or 2% of the Account Value
Pennant Select	If Account Value is < $100,000, the lesser of $40 or 2% of the Account Value
Olympia XT Advisor	If Account Value is < $100,000, the lesser of $40 or 2% of the Account Value
Penn Freedom Advisor	If Account Value is < $100,000, the lesser of $40 or 2% of the Account Value
Retirement Planner VA	$30 maximum
Inflation Protector Variable Annuity	If Account Value is < $100,000, the lesser of $40 or 2% of the Account Value
Smart Foundation Flex	If Account Value is < $50,000, the lesser of $40 or 2% of the Account Value
Smart Foundation Plus	If Account Value is < $50,000, the lesser of $40 or 2% of the Account Value
Smart Foundation VA	If Account Value is < $50,000, the lesser of $40 or 2% of the Account Value

Note 4. Related Party Transactions and Contract Charges (continued)

Products	Surrender Charge
Diversifier II/Optimizer	Maximum charge of 7% of purchase payments received. Charges do not apply after 10 years.
Commander	Maximum charge of 1% of purchase payments received. Charges do not apply after 1 year.
Penn Freedom	Maximum charge of 8% of purchase payments received. Charges do not apply after 4 years.
Enhanced Credit Variable Annuity	Maximum charge of 8% of purchase payments received. Charges do not apply after 9 years.
Pennant Select	Maximum charge of 7% of purchase payments received. Charges do not apply after 7 years.
Olympia XT Advisor	Maximum charge of 8% of purchase payments received. Charges do not apply after 9 years.
Penn Freedom Advisor	Maximum charge of 8% of purchase payments received. Charges do not apply after 4 years.
Retirement Planner VA	Maximum charge of 7% of purchase payments received. Charges do not apply after 10 years.
Inflation Protector Variable Annuity	Maximum charge of 8% of purchase payments received. Charges do not apply after 4 years.
Smart Foundation Flex	Maximum charge of 8% of purchase payments received. Charges do not apply after 4 years.
Smart Foundation Plus	Maximum charge of 8% of purchase payments received. Charges do not apply after 9 years.
Smart Foundation VA	Maximum charge of 8% of purchase payments received. Charges do not apply after 7 years.

Premium taxes on purchase payments are withheld from payments prior to the purchase of units. Currently, state premium taxes on purchase payments range from 0.00% to 3.50%.

Note 5. Accumulation Units

The accumulation units are as follows:

	December 31, 2015			December 31, 2014		
Subaccount	Units Purchased	Units Redeemed	Ending Unit Balance	Units Purchased	Units Redeemed	Ending Unit Balance
Money Market Fund	4,908,222	(5,664,326)	7,165,609	8,146,231	(7,178,732)	7,921,693
Limited Maturity Bond Fund	2,454,666	(2,835,371)	7,915,881	2,496,856	(1,587,016)	8,296,587
Quality Bond Fund	1,741,076	(1,590,349)	18,214,747	1,484,602	(2,459,100)	18,064,025
High Yield Bond Fund	694,650	(859,312)	6,630,090	1,315,676	(795,618)	6,794,756
Flexibly Managed Fund	16,924,357	(1,046,021)	118,743,663	15,696,896	(1,304,358)	102,865,327
Balanced Fund	233,463	(423,562)	3,682,108	405,826	(458,743)	3,872,213
Large Growth Stock Fund	932,752	(1,124,136)	11,813,632	1,242,379	(989,429)	12,005,029
Large Cap Growth Fund	235,426	(177,766)	1,982,759	160,172	(276,109)	1,925,104
Large Core Growth Fund	128,210	(553,038)	3,829,385	211,903	(480,239)	4,254,224
Large Cap Value Fund	421,957	(510,666)	5,350,669	611,210	(517,635)	5,439,377
Large Core Value Fund	419,751	(913,008)	6,160,221	490,522	(867,076)	6,653,466
Index 500 Fund	1,168,418	(982,536)	13,616,761	1,668,900	(824,706)	13,430,873
Mid Cap Growth Fund	325,873	(532,882)	4,925,209	363,919	(767,007)	5,132,228
Mid Cap Value Fund	585,629	(349,477)	4,598,636	524,228	(355,247)	4,362,483
Mid Core Value Fund	183,678	(482,233)	2,113,222	383,717	(247,846)	2,411,786
SMID Cap Growth Fund	595,006	(307,713)	2,393,965	647,650	(307,152)	2,106,682
SMID Cap Value Fund	337,554	(205,880)	2,418,781	684,270	(283,601)	2,287,099
Small Cap Growth Fund	351,249	(387,729)	2,915,128	463,569	(429,071)	2,951,597
Small Cap Value Fund	578,815	(348,136)	5,386,678	774,928	(382,994)	5,155,973
Small Cap Index Fund	404,463	(201,977)	3,138,189	682,245	(437,194)	2,935,703
Developed International Index Fund	615,350	(491,551)	4,549,440	972,374	(533,204)	4,425,645

Note 5. Accumulation Units (continued)

Subaccount	December 31, 2015 Units Purchased	Units Redeemed	Ending Unit Balance	December 31, 2014 Units Purchased	Units Redeemed	Ending Unit Balance
International Equity Fund	753,724	(752,448)	10,690,187	1,069,875	(713,946)	10,688,903
Emerging Markets Equity Fund	922,889	(928,109)	10,415,118	1,101,430	(1,001,391)	10,420,329
Real Estate Securities Fund	648,892	(504,196)	4,489,842	632,408	(664,295)	4,345,139
Aggressive Allocation Fund	460,537	(505,893)	4,226,885	715,883	(415,518)	4,272,252
Moderately Aggressive Allocation Fund	1,005,071	(1,242,613)	16,364,468	1,875,164	(1,231,013)	16,602,015
Moderate Allocation Fund	934,389	(2,041,324)	25,391,411	1,757,815	(1,740,187)	26,498,357
Moderately Conservative Allocation Fund	964,926	(1,257,810)	7,960,449	930,860	(1,429,251)	8,253,338
Conservative Allocation Fund	679,677	(908,613)	5,015,775	907,795	(1,326,736)	5,244,717
High Income Bond Fund II	—	—	—	—	(36)	—
Financial Services Fund	—	—	—	—	—	—
Health Care Fund	—	—	—	—	—	—
Russell 2000 1.5x Strategy Fund	—	(2)	1,095	—	(4,873)	1,097
Nova Fund	—	(8,678)	—	10,225	(9,430)	8,677
NASDAQ-100 Fund	—	(6,243)	—	6,241	(4,187)	6,241
Technology Fund	1,791	(1,781)	—	—	—	—
Inverse S&P 500 Strategy Fund	—	—	—	—	—	—
Government Long Bond 1.2x Strategy Fund	5,372	(81)	5,291	8,312	(8,312)	—
U.S. Government Money Market Fund	—	(4)	480	17,238	(17,490)	485
Utilities Fund	—	—	—	—	—	—
Equity Income Portfolio II	9,187	(138)	9,048	—	(131)	—
International Stock Portfolio	3,850	(1,102)	2,748	—	(49)	—

Note 6. Financial Highlights

Account III is a funding vehicle for a number of variable annuity products, which have unique combinations of features and fees that are charged against the contract owner's account balance. Differences in the fee structures result in a variety of unit values, expense ratios and total returns.

The following table was developed by determining which products offered within Account III have the lowest and highest total return. Only product designs within each subaccount that has units outstanding during the respective periods were considered when determining the lowest and highest total return. The summary may not reflect the minimum and maximum contract charges offered within Account III as contract owners may not have selected all available and applicable contract options.

Subaccount	January 1, 2015 Unit Value	December 31, 2015 Units	Unit Value	Net Assets	For the Year ended December 31, 2015 Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return***(%)
Money Market Fund	$9.30 to $23.10	7,165,609	$9.15 to $22.81	$ 74,501,987	0.01	1.25 to 1.65	(1.63) to (1.23)
Limited Maturity Bond Fund	9.56 to 16.86	7,915,881	9.48 to 16.79	93,195,717	—	1.25 to 1.65	(0.87) to (0.47)
Quality Bond Fund	10.04 to 40.44	18,214,747	9.92 to 40.09	257,385,723	—	1.25 to 1.65	(1.27) to (0.87)
High Yield Bond Fund	11.88 to 83.14	6,630,090	11.29 to 79.34	117,344,185	—	1.25 to 1.65	(4.95) to (4.57)
Flexibly Managed Fund	14.80 to 249.59	118,743,663	15.29 to 258.80	2,924,695,781	—	1.25 to 1.65	3.28 to 3.69
Balanced Fund	13.34 to 15.51	3,682,108	13.21 to 15.42	54,348,189	—	1.25 to 1.65	(0.97) to (0.57)
Large Growth Stock Fund	10.87 to 74.95	11,813,632	11.84 to 81.80	194,780,086	—	1.25 to 1.65	8.70 to 9.14
Large Cap Growth Fund	12.89 to 15.07	1,982,759	12.68 to 14.80	26,051,679	—	1.25 to 1.65	(1.79) to (1.39)
Large Core Growth Fund	14.66 to 17.99	3,829,385	14.69 to 17.99	57,685,922	—	1.25 to 1.65	0.02 to 0.42
Large Cap Value Fund	15.69 to 77.66	5,350,669	14.76 to 73.36	110,316,051	—	1.25 to 1.65	(5.92) to (5.54)
Large Core Value Fund	13.72 to 16.49	6,160,221	13.41 to 16.09	85,427,687	—	1.25 to 1.65	(2.43) to (2.04)
Index 500 Fund	16.17 to 27.60	13,616,761	16.06 to 27.53	246,090,977	—	1.25 to 1.65	(0.65) to (0.25)
Mid Cap Growth Fund	12.12 to 26.52	4,925,209	11.26 to 24.68	70,123,961	—	1.25 to 1.65	(7.32) to (6.95)
Mid Cap Value Fund	16.76 to 42.71	4,598,636	15.17 to 38.81	104,959,167	—	1.25 to 1.65	(9.49) to (9.13)
Mid Core Value Fund	16.04 to 22.34	2,113,222	15.54 to 21.73	41,291,697	—	1.25 to 1.65	(3.13) to (2.74)
SMID Cap Growth Fund	15.64 to 18.25	2,393,965	15.15 to 17.75	39,718,070	—	1.25 to 1.65	(3.13) to (2.74)
SMID Cap Value Fund	16.83 to 19.41	2,418,781	15.61 to 18.08	41,074,325	—	1.25 to 1.65	(7.24) to (6.86)
Small Cap Growth Fund	11.77 to 36.16	2,915,128	11.64 to 35.83	50,955,125	—	1.25 to 1.65	(1.29) to (0.90)

Note 6. Financial Highlights (continued)

	January 1, 2015	December 31, 2015			For the Year ended December 31, 2015		
Subaccount	Unit Value	Units	Unit Value	Net Assets	Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return***(%)
Small Cap Value Fund	$16.27 to $60.85	5,386,678	$15.13 to $56.82	$ 149,823,984	—	1.25 to 1.65	(7.01) to (6.63)
Small Cap Index Fund	15.65 to 17.94	3,138,189	14.61 to 16.74	47,493,658	—	1.25 to 1.65	(6.67) to (6.30)
Developed International Index Fund	10.57 to 12.88	4,549,440	10.27 to 12.53	49,799,229	—	1.25 to 1.65	(3.00) to (2.61)
International Equity Fund	12.59 to 44.72	10,690,187	12.83 to 45.75	217,439,079	—	1.25 to 1.65	1.90 to 2.30
Emerging Markets Equity Fund	9.83 to 10.74	10,415,118	8.61 to 9.44	92,026,025	—	1.25 to 1.65	(12.35) to (11.99)
Real Estate Securities Fund	14.90 to 28.49	4,489,842	15.42 to 29.61	101,730,698	—	1.25 to 1.65	3.50 to 3.91
Aggressive Allocation Fund	14.01 to 15.32	4,226,885	13.59 to 14.83	58,825,685	—	1.25 to 1.65	(3.20) to (2.81)
Moderately Aggressive Allocation Fund	13.59 to 14.82	16,364,468	13.21 to 14.47	229,110,017	—	1.25 to 1.65	(2.76) to (2.37)
Moderate Allocation Fund	12.65 to 13.66	25,391,411	12.37 to 13.42	330,778,517	—	1.25 to 1.65	(2.18) to (1.79)
Moderately Conservative Allocation Fund	11.79 to 12.97	7,960,449	11.57 to 12.78	98,299,803	—	1.25 to 1.65	(1.85) to (1.46)
Conservative Allocation Fund	10.85 to 12.13	5,015,775	10.68 to 11.99	58,140,402	—	1.25 to 1.65	(1.56) to (1.16)
High Income Bond Fund II	21.71 to 22.27	—	20.82 to 21.39	—	—	1.40 to 1.60	(4.12) to (3.93)
Financial Services Fund	10.37 to 10.63	—	9.80 to 10.07	—	—	1.40 to 1.60	(5.51) to (5.32)
Health Care Fund	25.82 to 26.48	—	26.56 to 27.30	—	—	1.40 to 1.60	2.87 to 3.08
Russell 2000 1.5x Strategy Fund	19.41 to 19.90	1,095	17.37 to 17.85	19,011	—	1.40 to 1.60	(10.52) to (10.34)
Nova Fund	18.18 to 18.64	—	17.76 to 18.25	—	—	1.40 to 1.60	(2.29) to (2.10)
NASDAQ-100 Fund	25.06 to 25.70	—	26.69 to 27.43	—	—	1.40 to 1.60	6.52 to 6.74
Technology Fund	17.57 to 18.02	—	17.48 to 17.97	—	—	1.40 to 1.60	(0.49) to (0.29)
Inverse S&P 500 Strategy Fund	2.40 to 2.46	—	2.26 to 2.32	—	—	1.40 to 1.60	(5.95) to (5.76)
Government Long Bond 1.2x Strategy Fund	21.34 to 21.88	5,291	19.93 to 20.48	108,367	1.06	1.40 to 1.60	(6.60) to (6.41)
U.S. Government Money Market Fund	9.15 to 9.38	480	9.01 to 9.25	4,321	—	1.40 to 1.60	(1.59) to (1.39)
Utilities Fund	18.23 to 18.69	—	16.62 to 17.08	—	—	1.40 to 1.60	(8.83) to (8.65)
Equity Income Portfolio II	18.21 to 18.42	9,048	16.65 to 16.87	152,678	2.32	1.40 to 1.60	(8.58) to (8.40)
International Stock Portfolio	15.94 to 16.34	2,748	15.54 to 15.97	43,889	0.91	1.40 to 1.60	(2.48) to (2.28)

	January 1, 2014	December 31, 2014			For the Year ended December 31, 2014		
Subaccount	Unit Value	Units	Unit Value	Net Assets	Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return***(%)
Money Market Fund	$9.46 to $23.38	7,921,693	$9.30 to $23.10	$ 84,205,368	0.01	1.25 to 1.65	(1.63) to (1.23)
Limited Maturity Bond Fund	9.70 to 17.05	8,296,587	9.56 to 16.86	99,241,901	—	1.25 to 1.65	(1.47) to (1.07)
Quality Bond Fund	9.72 to 38.97	18,064,025	10.04 to 40.44	267,380,170	—	1.25 to 1.65	3.38 to 3.79
High Yield Bond Fund	11.86 to 82.66	6,794,756	11.88 to 83.14	130,586,100	—	1.25 to 1.65	0.19 to 0.59
Flexibly Managed Fund	13.42 to 225.40	102,865,327	14.80 to 249.59	2,675,763,880	—	1.25 to 1.65	10.29 to 10.73
Balanced Fund	12.37 to 14.32	3,872,213	13.34 to 15.51	57,974,055	—	1.25 to 1.65	7.86 to 8.29
Large Growth Stock Fund	10.17 to 70.04	12,005,029	10.87 to 74.95	179,666,252	—	1.25 to 1.65	6.59 to 7.02
Large Cap Growth Fund	11.75 to 13.77	1,925,104	12.89 to 15.07	25,559,973	—	1.25 to 1.65	9.47 to 9.91
Large Core Growth Fund	13.81 to 16.97	4,254,224	14.66 to 17.99	63,644,134	—	1.25 to 1.65	5.97 to 6.39
Large Cap Value Fund	14.33 to 70.65	5,439,377	15.69 to 77.66	122,055,628	—	1.25 to 1.65	9.49 to 9.93
Large Core Value Fund	12.51 to 15.06	6,653,466	13.72 to 16.49	93,653,609	—	1.25 to 1.65	9.46 to 9.90
Index 500 Fund	14.51 to 24.67	13,430,873	16.17 to 27.60	245,906,551	—	1.25 to 1.65	11.40 to 11.85
Mid Cap Growth Fund	11.22 to 24.53	5,132,228	12.12 to 26.52	78,166,078	—	1.25 to 1.65	7.70 to 8.13
Mid Cap Value Fund	14.99 to 38.05	4,362,483	16.76 to 42.71	116,883,765	—	1.25 to 1.65	11.81 to 12.26
Mid Core Value Fund	14.01 to 19.44	2,411,786	16.04 to 22.34	49,675,998	—	1.25 to 1.65	14.47 to 14.93
SMID Cap Growth Fund	15.80 to 18.37	2,106,682	15.64 to 18.25	36,346,943	—	1.25 to 1.65	(1.04) to (0.64)
SMID Cap Value Fund	15.66 to 17.99	2,287,099	16.83 to 19.41	42,139,410	—	1.25 to 1.65	7.46 to 7.89
Small Cap Growth Fund	11.07 to 33.95	2,951,597	11.77 to 36.16	53,215,549	—	1.25 to 1.65	6.07 to 6.50
Small Cap Value Fund	15.44 to 57.51	5,155,973	16.27 to 60.85	163,561,074	—	1.25 to 1.65	5.39 to 5.82
Small Cap Index Fund	15.27 to 17.50	2,935,703	15.65 to 17.94	47,586,006	—	1.25 to 1.65	2.50 to 2.91
Developed International Index Fund	11.42 to 13.92	4,425,645	10.57 to 12.88	49,365,626	—	1.25 to 1.65	(7.64) to (7.27)
International Equity Fund	12.44 to 43.98	10,688,903	12.59 to 44.72	220,667,570	—	1.25 to 1.65	1.26 to 1.67
Emerging Markets Equity Fund	10.51 to 11.45	10,420,329	9.83 to 10.74	104,566,513	—	1.25 to 1.65	(6.47) to (6.09)
Real Estate Securities Fund	11.63 to 22.15	4,345,139	14.90 to 28.49	98,707,472	—	1.25 to 1.65	28.10 to 28.61
Aggressive Allocation Fund	13.31 to 14.59	4,272,252	14.01 to 15.32	61,333,257	—	1.25 to 1.65	5.03 to 5.45

Note 6. Financial Highlights (continued)

Subaccount	January 1, 2014 Unit Value	December 31, 2014 Units	December 31, 2014 Unit Value	December 31, 2014 Net Assets	For the Year ended December 31, 2014 Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return***(%)
Moderately Aggressive Allocation Fund	$13.00 to $14.12	16,602,015	$13.59 to $14.82	$ 239,600,535	—	1.25 to 1.65	4.54 to 4.96
Moderate Allocation Fund	12.17 to 13.10	26,498,357	12.65 to 13.66	353,318,651	—	1.25 to 1.65	3.90 to 4.32
Moderately Conservative Allocation Fund	11.41 to 12.50	8,253,338	11.79 to 12.97	104,042,468	—	1.25 to 1.65	3.29 to 3.70
Conservative Allocation Fund	10.63 to 11.84	5,244,717	10.85 to 12.13	61,856,797	—	1.25 to 1.65	2.05 to 2.46
High Income Bond Fund II	21.49 to 21.99	—	21.71 to 22.27	—	—	1.40 to 1.60	1.06 to 1.26
Financial Services Fund	9.36 to 9.58	—	10.37 to 10.63	—	—	1.40 to 1.60	10.79 to 11.01
Health Care Fund	21.06 to 21.55	—	25.82 to 26.48	—	—	1.40 to 1.60	22.64 to 22.89
Russell 2000 1.5x Strategy Fund	18.91 to 19.36	1,097	19.41 to 19.90	21,285	—	1.40 to 1.60	2.63 to 2.84
Nova Fund	15.57 to 15.94	8,677	18.18 to 18.64	161,737	—	1.40 to 1.60	16.70 to 16.94
NASDAQ-100 Fund	21.68 to 22.19	6,241	25.06 to 25.70	160,407	—	1.40 to 1.60	15.58 to 15.81
Technology Fund	16.22 to 16.60	—	17.57 to 18.02	—	—	1.40 to 1.60	8.34 to 8.55
Inverse S&P 500 Strategy Fund	2.85 to 2.92	—	2.40 to 2.46	—	—	1.40 to 1.60	(15.81) to (15.64)
Government Long Bond 1.2x Strategy Fund	16.10 to 16.48	—	21.34 to 21.88	—	0.90	1.40 to 1.60	32.54 to 32.80
U.S. Government Money Market Fund	9.30 to 9.52	485	9.15 to 9.38	4,434	—	1.40 to 1.60	(1.59) to (1.39)
Utilities Fund	15.07 to 15.42	—	18.23 to 18.69	—	—	1.40 to 1.60	20.94 to 21.19
Equity Income Portfolio II	17.28 to 17.44	—	18.21 to 18.42	—	—	1.40 to 1.60	5.40 to 5.61
International Stock Portfolio	16.40 to 16.78	—	15.94 to 16.34	—	—	1.40 to 1.60	(2.81) to (2.61)

Subaccount	January 1, 2013 Unit Value	December 31, 2013 Units	December 31, 2013 Unit Value	December 31, 2013 Net Assets	For the Year ended December 31, 2013 Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return***(%)
Money Market Fund	$9.62 to $23.68	6,954,194	$9.46 to $23.38	$ 76,956,135	0.01	1.25 to 1.65	(1.63) to (1.23)
Limited Maturity Bond Fund	9.87 to 17.28	7,386,747	9.70 to 17.05	90,783,913	—	1.25 to 1.65	(1.72) to (1.33)
Quality Bond Fund	10.85 to 40.66	19,038,523	9.72 to 38.97	282,321,370	—	1.25 to 1.65	(4.56) to (4.17)
High Yield Bond Fund	12.00 to 77.56	6,274,698	11.86 to 82.66	129,687,090	—	1.25 to 1.65	6.14 to 6.57
Flexibly Managed Fund	12.54 to 186.64	88,472,789	13.42 to 225.40	2,307,823,488	—	1.25 to 1.65	20.29 to 20.77
Balanced Fund	12.05 to 12.42	3,925,130	12.37 to 14.32	54,699,169	—	1.25 to 1.65	14.84 to 15.30
Large Growth Stock Fund	7.41 to 50.98	11,752,079	10.17 to 70.04	161,971,873	—	1.25 to 1.65	36.84 to 37.39
Large Cap Growth Fund	9.68 to 11.37	2,041,041	11.75 to 13.77	24,532,544	—	1.25 to 1.65	21.08 to 21.56
Large Core Growth Fund	10.16 to 12.51	4,522,560	13.81 to 16.97	63,350,383	—	1.25 to 1.65	35.65 to 36.19
Large Cap Value Fund	11.85 to 53.70	5,345,802	14.33 to 70.65	112,888,785	—	1.25 to 1.65	31.03 to 31.55
Large Core Value Fund	9.78 to 11.80	7,030,020	12.51 to 15.06	89,601,755	—	1.25 to 1.65	27.65 to 28.17
Index 500 Fund	12.06 to 18.95	12,586,679	14.51 to 24.67	208,588,587	—	1.25 to 1.65	29.71 to 30.23
Mid Cap Growth Fund	8.32 to 18.17	5,535,316	11.22 to 24.53	77,594,155	—	1.25 to 1.65	34.48 to 35.02
Mid Cap Value Fund	12.20 to 28.29	4,193,502	14.99 to 38.05	106,660,713	—	1.25 to 1.65	33.98 to 34.51
Mid Core Value Fund	12.59 to 15.24	2,275,915	14.01 to 19.44	41,597,269	—	1.25 to 1.65	27.04 to 27.55
SMID Cap Growth Fund	12.70 to 13.02	1,766,184	15.80 to 18.37	31,138,018	—	1.25 to 1.65	40.50 to 41.06
SMID Cap Value Fund	12.54 to 13.20	1,886,430	15.66 to 17.99	32,550,681	—	1.25 to 1.65	35.74 to 36.28
Small Cap Growth Fund	8.16 to 24.98	2,917,099	11.07 to 33.95	51,089,120	—	1.25 to 1.65	35.35 to 35.90
Small Cap Value Fund	13.41 to 41.91	4,764,039	15.44 to 57.51	156,251,206	—	1.25 to 1.65	36.66 to 37.20
Small Cap Index Fund	11.54 to 12.88	2,690,652	15.27 to 17.50	42,520,607	—	1.25 to 1.65	35.88 to 36.42
Developed International Index Fund	9.57 to 10.88	3,986,475	11.42 to 13.92	47,446,590	—	1.25 to 1.65	19.10 to 19.58
International Equity Fund	12.87 to 42.03	10,332,974	12.44 to 43.98	219,057,521	—	1.25 to 1.65	4.24 to 4.65
Emerging Markets Equity Fund	10.80 to 10.96	10,320,290	10.51 to 11.45	110,201,487	—	1.25 to 1.65	(2.75) to (2.36)
Real Estate Securities Fund	12.89 to 21.75	4,377,026	11.63 to 22.15	81,177,328	—	1.25 to 1.65	1.44 to 1.85
Aggressive Allocation Fund	11.03 to 12.11	3,971,887	13.31 to 14.59	54,093,458	—	1.25 to 1.65	20.49 to 20.97
Moderately Aggressive Allocation Fund	11.90 to 12.00	15,957,864	13.00 to 14.12	220,885,284	—	1.25 to 1.65	17.21 to 17.68
Moderate Allocation Fund	11.52 to 11.63	26,480,729	12.17 to 13.10	340,334,339	—	1.25 to 1.65	12.24 to 12.69
Moderately Conservative Allocation Fund	11.28 to 11.58	8,751,729	11.41 to 12.50	107,070,466	—	1.25 to 1.65	7.56 to 7.99
Conservative Allocation Fund	10.81 to 11.48	5,663,658	10.63 to 11.84	65,545,737	—	1.25 to 1.65	2.72 to 3.13
High Income Bond Fund II	20.41 to 20.84	36	21.49 to 21.99	785	19.02	1.40 to 1.60	5.29 to 5.50
Financial Services Fund	7.46 to 7.62	—	9.36 to 9.58	—	—	1.40 to 1.60	25.53 to 25.78

Note 6. Financial Highlights (continued)

	January 1, 2013	December 31, 2013			For the Year ended December 31, 2013		
Subaccount	Unit Value	Units	Unit Value	Net Assets	Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return***(%)
Health Care Fund	$ 15.09 to $15.41	—	$ 21.06 to $21.55	$ —	—	1.40 to 1.60	39.56 to 39.84
Russell 2000 1.5x Strategy Fund	12.12 to 12.38	5,970	18.91 to 19.36	115,066	—	1.40 to 1.60	56.05 to 56.36
Nova Fund	10.62 to 10.85	7,882	15.57 to 15.94	125,652	0.06	1.40 to 1.60	46.63 to 46.92
NASDAQ-100 Fund	16.37 to 16.72	4,187	21.68 to 22.19	92,916	—	1.40 to 1.60	32.48 to 32.75
Technology Fund	12.17 to 12.43	—	16.22 to 16.60	—	—	1.40 to 1.60	33.25 to 33.51
Inverse S&P 500 Strategy Fund	3.94 to 4.03	—	2.85 to 2.92	—	—	1.40 to 1.60	(27.68) to (27.54)
Government Long Bond 1.2x Strategy Fund	20.01 to 20.44	—	16.10 to 16.48	—	0.93	1.40 to 1.60	(19.55) to (19.39)
U.S. Government Money Market Fund	9.45 to 9.65	737	9.30 to 9.52	6,850	—	1.40 to 1.60	(1.59) to (1.39)
Utilities Fund	13.48 to 13.77	—	15.07 to 15.42	—	—	1.40 to 1.60	11.82 to 12.05
Equity Income Portfolio II	13.57 to 13.67	131	17.28 to 17.44	2,290	1.18	1.40 to 1.60	27.35 to 27.61
International Stock Portfolio	14.61 to 14.92	49	16.40 to 16.78	26	0.26	1.40 to 1.60	12.24 to 12.47

	January 1, 2012	December 31, 2012			For the Year ended December 31, 2012		
Subaccount	Unit Value	Units	Unit Value	Net Assets	Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return*** (%)
Money Market Fund	$9.77 to $23.97	7,463,821	$9.62 to $23.68	$ 85,893,038	0.01	1.25 to 1.65	(1.63) to (1.24)
Limited Maturity Bond Fund	9.97 to 17.39	8,575,064	9.87 to 17.28	109,915,517	—	1.25 to 1.65	(1.04) to (0.64)
Quality Bond Fund	10.69 to 39.89	21,533,421	10.85 to 40.66	351,966,131	—	1.25 to 1.65	1.53 to 1.94
High Yield Bond Fund	10.65 to 68.56	5,722,084	12.00 to 77.56	122,606,185	—	1.25 to 1.65	12.69 to 13.14
Flexibly Managed Fund	11.11 to 164.73	65,569,130	12.54 to 186.64	1,686,424,294	—	1.25 to 1.65	12.85 to 13.30
Balanced Fund	11.09 to 11.38	3,997,849	12.05 to 12.42	49,006,232	—	1.25 to 1.65	8.71 to 9.15
Large Growth Stock Fund	6.33 to 43.47	11,667,980	7.41 to 50.98	114,823,851	—	1.25 to 1.65	16.80 to 17.27
Large Cap Growth Fund	8.91 to 10.49	2,313,656	9.68 to 11.37	22,682,554	—	1.25 to 1.65	8.45 to 8.88
Large Core Growth Fund	8.87 to 10.95	4,718,207	10.16 to 12.51	48,302,707	—	1.25 to 1.65	14.24 to 14.70
Large Cap Value Fund	10.64 to 48.03	5,389,501	11.85 to 53.70	89,619,920	—	1.25 to 1.65	11.37 to 11.82
Large Core Value Fund	8.58 to 10.38	7,275,639	9.78 to 11.80	71,773,984	—	1.25 to 1.65	13.69 to 14.14
Index 500 Fund	10.57 to 16.59	10,763,342	12.06 to 18.95	139,074,740	—	1.25 to 1.65	13.78 to 14.24
Mid Cap Growth Fund	7.96 to 17.34	5,882,908	8.32 to 18.17	61,374,541	—	1.25 to 1.65	4.34 to 4.76
Mid Cap Value Fund	10.77 to 24.87	3,645,551	12.20 to 28.29	75,251,634	—	1.25 to 1.65	13.28 to 13.74
Mid Core Value Fund	11.19 to 13.48	2,171,573	12.59 to 15.24	31,985,042	—	1.25 to 1.65	12.59 to 13.04
SMID Cap Growth Fund	11.19 to 11.43	1,343,033	12.70 to 13.02	17,151,936	—	1.25 to 1.65	13.46 to 13.92
SMID Cap Value Fund	10.72 to 11.24	1,419,281	12.54 to 13.20	18,326,726	—	1.25 to 1.65	17.00 to 17.47
Small Cap Growth Fund	7.83 to 23.93	3,503,870	8.16 to 24.98	45,235,245	—	1.25 to 1.65	3.99 to 4.41
Small Cap Value Fund	11.74 to 36.54	4,261,738	13.41 to 41.91	111,488,504	—	1.25 to 1.65	14.26 to 14.72
Small Cap Index Fund	10.14 to 11.34	2,059,654	11.54 to 12.88	23,927,683	—	1.25 to 1.65	13.61 to 14.06
Developed International Index Fund	8.22 to 9.36	3,437,294	9.57 to 10.88	33,573,279	—	1.25 to 1.65	16.22 to 16.69
International Equity Fund	10.80 to 35.15	9,339,249	12.87 to 42.03	199,916,772	—	1.25 to 1.65	19.08 to 19.56
Emerging Markets Equity Fund	9.18 to 9.28	9,450,596	10.80 to 10.96	103,129,950	—	1.25 to 1.65	17.64 to 18.12
Real Estate Securities Fund	11.30 to 18.99	3,523,145	12.89 to 21.75	69,490,415	—	1.25 to 1.65	14.10 to 14.56
Aggressive Allocation Fund	9.69 to 10.66	3,540,988	11.03 to 12.11	39,777,470	—	1.25 to 1.65	13.59 to 14.05
Moderately Aggressive Allocation Fund	10.62 to 10.69	14,347,637	11.90 to 12.00	170,342,103	—	1.25 to 1.65	11.77 to 12.22
Moderate Allocation Fund	10.54 to 10.66	24,530,823	11.52 to 11.63	282,076,195	—	1.25 to 1.65	9.11 to 9.54
Moderately Conservative Allocation Fund	10.58 to 10.83	8,113,565	11.28 to 11.58	92,878,552	—	1.25 to 1.65	6.53 to 6.95
Conservative Allocation Fund	10.42 to 11.02	6,104,689	10.81 to 11.48	69,099,125	—	1.25 to 1.65	3.75 to 4.17
High Income Bond Fund II	18.08 to 18.43	4,615	20.41 to 20.84	94,339	8.30	1.40 to 1.60	12.87 to 13.10
Financial Services Fund	6.18 to 6.30	—	7.46 to 7.62	—	—	1.40 to 1.60	20.73 to 20.97
Health Care Fund	13.09 to 13.34	—	15.09 to 15.41	—	—	1.40 to 1.60	15.30 to 15.53
Russell 2000 1.5x Strategy Fund	10.09 to 10.28	7,788	12.12 to 12.38	99,116	—	1.40 to 1.60	20.16 to 20.40
Nova Fund	8.83 to 9.00	7,755	10.62 to 10.85	84,139	—	1.40 to 1.60	20.30 to 20.54
NASDAQ-100 Fund	14.24 to 14.52	6,235	16.37 to 16.72	104,228	—	1.40 to 1.60	14.91 to 15.14
Technology Fund	11.05 to 11.26	—	12.17 to 12.43	—	—	1.40 to 1.60	10.20 to 10.42
Inverse S&P 500 Strategy Fund	4.83 to 4.92	—	3.94 to 4.03	—	—	1.40 to 1.60	(18.30) to (18.14)
Government Long Bond 1.2x Strategy Fund	19.74 to 20.12	—	20.01 to 20.44	—	0.88	1.40 to 1.60	1.38 to 1.58

Note 6. Financial Highlights (continued)

Subaccount	January 1, 2012 Unit Value	December 31, 2012 Units	December 31, 2012 Unit Value	December 31, 2012 Net Assets	For the Year ended December 31, 2012 Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return*** (%)
U.S. Government Money Market Fund	$9.60 to $9.79	745	$9.45 to $9.65	$ 7,044	—	1.40 to 1.60	(1.59) to (1.39)
Utilities Fund	13.54 to 13.81	—	13.48 to 13.77	—	—	1.40 to 1.60	(0.49) to (0.29)
Equity Income Portfolio II	11.79 to 11.85	1,387	13.57 to 13.67	18,956	1.68	1.40 to 1.60	15.06 to 15.29
International Stock Portfolio	12.53 to 12.78	520	14.61 to 14.92	7,764	0.90	1.40 to 1.60	16.55 to 16.79

Subaccount	January 1, 2011 Unit Value	December 31, 2011 Units	December 31, 2011 Unit Value	December 31, 2011 Net Assets	For the Year ended December 31, 2011 Investment Income Ratio*(%)	Expense Ratio**(%)	Total Return***(%)
Money Market Fund	$9.94 to $24.27	8,560,787	$9.77 to $23.97	$ 98,595,231	0.01	1.25 to 1.65	(1.62) to (1.23)
Limited Maturity Bond Fund	9.92 to 17.22	7,142,313	9.97 to 17.39	93,891,948	—	1.25 to 1.65	0.57 to 0.97
Quality Bond Fund	9.87 to 36.68	16,837,645	10.69 to 39.89	286,570,584	—	1.25 to 1.65	8.32 to 8.76
High Yield Bond Fund	10.51 to 67.35	4,597,551	10.65 to 68.56	95,196,769	—	1.25 to 1.65	1.39 to 1.80
Flexibly Managed Fund	10.96 to 161.88	52,675,864	11.11 to 164.73	1,364,848,230	—	1.25 to 1.65	1.35 to 1.76
Balanced Fund	10.68 to 10.92	3,756,492	11.09 to 11.38	42,562,623	—	1.25 to 1.65	3.83 to 4.25
Large Growth Stock Fund	6.52 to 44.71	11,560,527	6.33 to 43.47	96,768,806	—	1.25 to 1.65	(3.16) to (2.77)
Large Cap Growth Fund	9.70 to 11.43	2,408,580	8.91 to 10.49	21,612,432	—	1.25 to 1.65	(8.29) to (7.92)
Large Core Growth Fund	9.48 to 11.72	5,172,242	8.87 to 10.95	46,121,275	—	1.25 to 1.65	(6.56) to (6.19)
Large Cap Value Fund	11.32 to 50.88	5,761,980	10.64 to 48.03	87,153,415	—	1.25 to 1.65	(5.98) to (5.61)
Large Core Value Fund	9.09 to 11.01	7,644,718	8.58 to 10.38	65,894,581	—	1.25 to 1.65	(5.75) to (5.38)
Index 500 Fund	10.54 to 16.50	9,445,038	10.57 to 16.59	108,326,551	—	1.25 to 1.65	0.10 to 0.50
Mid Cap Growth Fund	8.75 to 19.04	5,841,085	7.96 to 17.34	57,659,326	—	1.25 to 1.65	(9.28) to (8.92)
Mid Cap Value Fund	11.68 to 26.87	3,480,795	10.77 to 24.87	66,324,565	—	1.25 to 1.65	(7.81) to (7.44)
Mid Core Value Fund	11.79 to 14.15	2,213,502	11.19 to 13.48	29,326,711	—	1.25 to 1.65	(5.11) to (4.73)
SMID Cap Growth Fund	11.94 to 12.15	963,998	11.19 to 11.43	10,950,785	—	1.25 to 1.65	(6.27) to (5.90)
SMID Cap Value Fund	11.74 to 12.26	1,168,734	10.72 to 11.24	13,032,095	—	1.25 to 1.65	(8.68) to (8.32)
Small Cap Growth Fund	8.94 to 27.26	3,481,729	7.83 to 23.93	44,044,123	—	1.25 to 1.65	(12.56) to (12.21)
Small Cap Value Fund	11.83 to 36.68	4,076,165	11.74 to 36.54	98,986,877	—	1.25 to 1.65	(0.78) to (0.38)
Small Cap Index Fund	10.77 to 12.07	1,571,097	10.14 to 11.34	15,997,508	—	1.25 to 1.65	(6.07) to (5.70)
Developed International Index Fund	9.54 to 10.89	2,873,026	8.22 to 9.36	23,689,661	—	1.25 to 1.65	(14.04) to (13.70)
International Equity Fund	10.88 to 35.27	9,403,367	10.80 to 35.15	173,169,647	—	1.25 to 1.65	(0.74) to (0.34)
Emerging Markets Equity Fund	11.45 to 11.52	8,776,569	9.18 to 9.28	81,050,617	—	1.25 to 1.65	(19.78) to (19.46)
Real Estate Securities Fund(a)	10.73 to 17.96	2,838,281	11.30 to 18.99	52,353,197	—	1.25 to 1.65	5.29 to 5.71
Aggressive Allocation Fund	10.20 to 11.25	2,760,819	9.69 to 10.66	26,876,020	—	1.25 to 1.65	(5.23) to (4.85)
Moderately Aggressive Allocation Fund	10.98 to 11.05	11,945,878	10.62 to 10.69	127,117,311	—	1.25 to 1.65	(3.40) to (3.01)
Moderate Allocation Fund	10.62 to 10.77	20,556,709	10.54 to 10.66	217,069,283	—	1.25 to 1.65	(0.99) to (0.60)
Moderately Conservative Allocation Fund	10.48 to 10.67	7,972,110	10.58 to 10.83	85,783,809	—	1.25 to 1.65	1.04 to 1.45
Conservative Allocation Fund	10.19 to 10.74	5,624,913	10.42 to 11.02	61,531,917	—	1.25 to 1.65	2.23 to 2.63
V.I. Capital Appreciation Fund	10.12 to 10.30	—	9.17 to 9.35	—	0.35	1.40 to 1.60	(9.17) to (9.35)
High Income Bond Fund II	17.47 to 17.77	9,158	18.08 to 18.43	167,160	8.08	1.40 to 1.60	3.50 to 3.71
Financial Services Fund	7.38 to 7.50	—	6.18 to 6.30	—	—	1.40 to 1.60	(16.27) to (16.11)
Health Care Fund	12.70 to 12.92	—	13.09 to 13.34	—	—	1.40 to 1.60	3.03 to 3.24
Russell 2000 1.5x Strategy Fund	11.67 to 11.87	1,104	10.09 to 10.28	11,134	—	1.40 to 1.60	(13.58) to (13.40)
Nova Fund	9.08 to 9.24	2,147	8.83 to 9.00	19,326	0.01	1.40 to 1.60	(2.73) to (2.54)
NASDAQ-100 Fund	14.16 to 14.41	10,993	14.24 to 14.52	159,591	—	1.40 to 1.60	0.55 to 0.75
Technology Fund	12.36 to 12.58	—	11.05 to 11.26	—	—	1.40 to 1.60	(10.64) to (10.46)
Inverse S&P 500 Strategy Fund	5.39 to 5.49	182	4.83 to 4.92	880	—	1.40 to 1.60	(10.48) to (10.31)
Government Long Bond 1.2x Strategy Fund	14.17 to 14.42	602	19.74 to 20.12	12,122	1.87	1.40 to 1.60	39.28 to 39.56
U.S. Government Money Market Fund	9.75 to 9.92	23,460	9.60 to 9.79	228,582	—	1.40 to 1.60	(1.58) to (1.38)
Utilities Fund	11.83 to 12.04	—	13.54 to 13.81	—	—	1.40 to 1.60	14.45 to 14.68
Equity Income Portfolio II	12.10 to 12.15	3,842	11.79 to 11.85	45,543	1.42	1.40 to 1.60	(2.59) to (2.39)
International Stock Portfolio	14.61 to 14.86	1,076	12.53 to 12.78	13,751	0.56	1.40 to 1.60	(14.22) to (14.04)

Note 6. Financial Highlights (continued)

(a) Prior to May 1, 2011, Real Estate Securities Fund was named REIT Fund.

* These ratios represent the dividends, excluding distributions of capital gains, received by the subaccounts within Account III from the underlying mutual fund, net of management fees and expenses assessed by the fund manager, divided by the average net assets of the respective subaccounts. These ratios exclude those expenses, such as mortality and expense charges, that result in direct reduction in the unit values. The recognition of investment income by the subaccount is affected by the timing of the declaration of dividends by the underlying funds in which the subaccount invests and, to the extent the underlying fund utilizes consent dividend rather than paying dividends in cash or reinvested shares, Account III does not record investment income.

** These ratios represent the annualized contract expenses of the subaccount, consisting primarily of mortality and expense charges, for each period indicated. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying subaccount are excluded. Certain previously disclosed expense ratios were changed according to the revisions stated in Footnote 2.

*** These ratios represent the total return for the periods indicated, including changes in the value of the underlying subaccount, and reflect deductions for all items included in the expense ratio. The total return does not include any expenses assessed through the redemption of units; inclusion of these expenses in the calculation would result in a reduction in the total return presented. Investment options with a date notation indicate the effective date of that investment option in the variable account. The total return is calculated for the period indicated or from the effective date through the end of the reporting period and reflects a range of actual product total returns.

Note 7. Subsequent Events

Management has evaluated events subsequent to December 31, 2015 and through the Account III Financial Statement date of issuance of April 1, 2016 and has determined that there were no subsequent events requiring recognition of disclosure in the financial statements.

PennMutual®

The Penn Mutual Life Insurance Company

2015 Statutory Financial Statements

PricewaterhouseCoopers LLP,
Two Commerce Square — Suite 1700,
2001 Market Street,
Philadelphia, PA 19103-7042
T: (267) 330 2110, F: (267) 330 3300,
www.pwc.com/us

Independent Auditor's Report

To the Board of Trustees of
The Penn Mutual Life Insurance Company:

We have audited the accompanying statutory financial statements of The Penn Mutual Life Insurance Company (the "Company"), which comprise the statutory statements of admitted assets, liabilities and surplus as of December 31, 2015 and 2014, and the related statutory statements of income and changes in surplus and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2015 and 2014, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania described in Note 1.

PricewaterhouseCoopers LLP

February 16, 2016

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(In Thousands)

Statements of Admitted Assets, Liabilities and Surplus

As of December 31,	2015	2014
ADMITTED ASSETS		
Bonds	$ 8,134,957	$ 7,528,488
Stocks:		
Preferred	72,595	72,905
Common — affiliated	372,588	427,122
Common — unaffiliated	96,007	69,196
Real estate	29,444	27,642
Policy loans	304,727	298,689
Cash and short-term investments	245,071	128,700
Alternative assets	450,237	398,068
Other invested assets	481,160	458,024
TOTAL INVESTMENTS	10,186,786	9,408,834
Investment income due and accrued	107,540	99,001
Premiums due and deferred	69,796	63,551
Deferred tax asset	230,679	230,151
Corporate owned life insurance	207,641	214,623
Amounts recoverable from reinsurers	35,648	13,116
Other assets	179,120	62,422
Separate account assets	7,217,838	7,179,068
TOTAL ASSETS	**$18,235,048**	**$17,270,766**
LIABILITIES		
Reserves and funds for payment of insurance and annuity benefits	$ 7,925,692	$ 7,106,140
Dividends to policyholders payable in the following year	48,290	41,667
Policy claims in process	45,028	44,000
Interest maintenance reserve	132,272	120,903
Asset valuation reserve	81,512	77,048
Drafts outstanding	31,624	26,236
Funds held under coinsurance	646,519	582,795
Other liabilities	318,581	293,133
Separate account liabilities	7,217,838	7,179,068
TOTAL LIABILITIES	**16,447,356**	**15,470,990**
SURPLUS		
Surplus notes	389,412	389,231
Unassigned surplus	1,398,280	1,410,545
TOTAL SURPLUS	**1,787,692**	**1,799,776**
TOTAL LIABILITIES AND SURPLUS	**$18,235,048**	**$17,270,766**

The accompanying notes are an integral part of these financial statements.

(In Thousands)

Statements of Income and Changes in Surplus

For the Years Ended December 31,	2015	2014
REVENUE		
Premium and annuity considerations	$1,196,285	$ 664,006
Net investment income	531,844	480,366
Other revenue	470,769	293,549
TOTAL REVENUE	2,198,898	1,437,921
BENEFITS AND EXPENSES		
Benefits paid to policyholders and beneficiaries	1,068,093	1,049,517
Increase/(Decrease) in reserves for payment of future insurance and annuity benefits	375,014	(311,032)
Commissions	138,524	120,362
Operating expenses	294,228	252,881
Other expenses	106,666	103,581
Net transfer to separate accounts	110,916	151,215
TOTAL BENEFITS AND EXPENSES	2,093,441	1,366,524
GAIN FROM OPERATIONS BEFORE DIVIDENDS AND FEDERAL INCOME TAX EXPENSE	105,457	71,397
Dividends to policyholders	50,092	43,474
GAIN FROM OPERATIONS BEFORE FEDERAL INCOME TAX EXPENSE	55,365	27,923
Federal income tax (benefit)/expense	(35,213)	36,037
GAIN/(LOSS) FROM OPERATIONS	90,578	(8,114)
Net realized capital gains, net of tax	10,731	17,398
NET INCOME	**$ 101,309**	**$ 9,284**
SURPLUS		
Net income	$ 101,309	$ 9,284
Change due to reinsurance	20,813	173,062
Change in asset valuation reserve	(4,464)	(26,842)
Change in net unrealized capital gains, net of tax	(97,207)	113,091
Change in net deferred income tax	(5,797)	63,648
Change in funded status of postretirement plans	(1,841)	(16,559)
Change in surplus notes	181	168
Change in nonadmitted assets	(25,078)	(6,762)
Change in surplus	(12,084)	309,090
Surplus, beginning of year	1,799,776	1,490,686
Surplus, end of year	**$1,787,692**	**$1,799,776**

The accompanying notes are an integral part of these financial statements.

(In Thousands)

Statements of Cash Flows

For the Years Ended December 31,	2015	2014
OPERATIONS		
Premium and annuity considerations	$1,997,573	$1,530,568
Net investment income	513,611	415,884
Other revenue	264,627	200,362
CASH PROVIDED BY OPERATIONS	2,775,811	2,146,814
Benefits paid	1,020,568	1,035,067
Commissions and operating expenses	515,474	487,065
Net transfers to separate accounts	97,155	145,761
Dividends to policyholders	16,479	35,197
Taxes refunded on operating income and realized investment losses	81,324	(10,187)
CASH USED IN OPERATIONS	1,731,000	1,692,903
NET CASH PROVIDED BY OPERATIONS	**1,044,811**	**453,911**
INVESTMENT ACTIVITIES		
Investments sold, matured or repaid:		
Bonds	1,371,168	1,827,619
Preferred and common stocks	77,353	18,858
Limited partnerships, real estate and other invested assets	27,856	36,101
Derivatives	71,564	56,931
NET PROCEEDS FROM INVESTMENTS SOLD, MATURED OR REPAID	1,547,941	1,939,509
Cost of investments acquired:		
Bonds	2,096,937	2,018,453
Preferred and common stock	126,644	134,606
Limited partnerships, real estate and other invested assets	123,898	112,205
Derivatives	56,186	—
TOTAL COST OF INVESTMENTS ACQUIRED	2,403,665	2,265,264
Net (increase)/decrease in policy loans	(9,891)	882
NET CASH USED IN INVESTMENT ACTIVITIES	**(865,615)**	**(324,873)**
FINANCING AND MISCELLANEOUS		
Net withdrawals on deposit-type contracts	(17,461)	(13,724)
Other cash applied/(used), net	(43,365)	(55,345)
NET CASH PROVIDED BY/(USED IN) FINANCING AND MISCELLANEOUS	(62,825)	(69,069)
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	116,371	59,969
Cash and short-term investments:		
Beginning of year	128,700	68,731
End of year	**$ 245,071**	**$ 128,700**

Supplemental Disclosure of Cash Flow Information for Non-Cash Transactions:	
Common stock acquired in the form of a dividend	$ 132,560
Premiums paid from benefits	39,393
Premiums paid by dividend	26,990
Premiums paid by policy loan	5,743
Capitalized interest	2,101
Other	6,149

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Note 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

NATURE OF OPERATIONS The Penn Mutual Life Insurance Company (the "Company") is a mutual life insurance company, domiciled in Pennsylvania, which concentrates primarily in the sale of individual life insurance and annuity products. The primary products that the Company currently markets are traditional whole life, one year non-renewable and level term, universal life, indexed universal life, variable universal life, immediate annuities and deferred annuities, both fixed and variable. The Company markets its products through a network of career agents, independent agents, and independent marketing organizations. The Company is licensed to write business in all fifty states and the District of Columbia.

BASIS OF PRESENTATION The accompanying financial statements of the Company have been prepared in conformity with the National Association of Insurance Commissioner's ("NAIC") Practices and Procedures manual and with statutory accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania (collectively "SAP" or "statutory accounting principles"). Prescribed statutory accounting practices include publications of the NAIC, state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company currently has no permitted practices.

Statutory accounting principles are different in some respects from U.S. Generally Accepted Accounting Principles ("GAAP"). The more significant differences between statutory accounting principles and GAAP are as follows:

(a) certain acquisition costs, such as commissions and other variable costs, that are directly related to the successful acquisition of new business, are charged to current operations as incurred, whereas GAAP generally capitalizes these expenses and amortizes them based on profit emergence over the expected life of the policies or over premium payment period;
(b) statutory policy reserves are based upon the Commissioners' Reserve Valuation Method ("CRVM") or net level premium method and prescribed statutory mortality, morbidity and interest assumptions, whereas GAAP reserves would generally be based upon the net level premium method or the estimated gross margin method, with estimates of future mortality, morbidity and interest assumptions;
(c) bonds are generally carried at amortized cost, whereas GAAP generally reports bonds at fair value;
(d) undistributed earnings from alternative assets are included in unrealized gains and losses, whereas GAAP would treat these changes as net investment income;
(e) deferred income taxes, which provide for book versus tax temporary differences, are subject to limitation and are charged to surplus, whereas GAAP would generally include the change in deferred taxes in net income;
(f) payments received for universal and variable life insurance products and variable annuities are reported as premium income and changes in reserves, whereas GAAP would treat these payments as deposits to policyholders' account balances;
(g) assets are reported at "admitted asset" value and "nonadmitted assets" are excluded through a charge against surplus, whereas GAAP records these assets net of any valuation allowance;
(h) majority-owned subsidiaries are accounted for using the equity method. The Penn Insurance and Annuity Company ("PIA"), Hornor Townsend & Kent, Inc. ("HTK"), and Independence Square Properties LLC ("ISP") are admitted assets. Penn Mutual Asset Management, Inc. ("PMAM"), (formerly Independence Capital Management Inc.), is a nonadmitted asset, whereas GAAP would consolidate these entities;
(i) surplus notes are reported in surplus, whereas GAAP would report these notes as debt. Costs associated with these notes are expensed, whereas GAAP capitalizes those expenses and amortizes them into income over the life of the notes;
(j) reinsurance reserve credits are reported as a reduction of policyholders' reserves and liabilities for deposit-type contracts, whereas GAAP would report these balances as an asset;
(k) an asset valuation reserve ("AVR") is reported as a contingency reserve to stabilize surplus against fluctuations in the carrying value of stocks, real estate investments, partnerships, limited liability companies ("LLCs"), low income housing tax credit ("LIHTC") investments, and certain credit related derivative instruments as well as credit-related declines in the value of bonds, whereas GAAP does not record this reserve;

(l) after-tax realized capital gains and losses which result from changes in the overall level of interest rates for all types of fixed-income investments and interest-related hedging activities are deferred into the interest maintenance reserve ("IMR") and amortized into investment income over the remaining life of the investment sold, whereas GAAP reports these gains and losses as revenue at time of sale;
(m) changes in the fair value of the derivative financial instruments are recorded as changes in surplus, unless deemed an effective hedge when it is carried at amortized cost with no resulting changes in fair value; changes in fair value for GAAP are reported as income for non-hedging transactions and effective fair value hedges; changes in fair value for GAAP are reported as other comprehensive income for effective cash flow hedges;
(n) comprehensive income is not presented whereas GAAP presents changes in unrealized capital gains and losses, changes in funded status of pension and postretirement plans, and foreign currency translations as other comprehensive income;
(o) embedded derivatives are recorded as part of the underlying contract, whereas GAAP would identify and bifurcate certain embedded derivatives from the underlying contract or security and account for them separately;
(p) policyholder dividends are recognized when declared, whereas GAAP recognizes these over the term of the related policies;
(q) company investment in the separate accounts in the form of seed money is presented as separate account assets, whereas GAAP presents the investment as a general account equity investment;
(r) identification of other-than-temporary impairment uses an "intent and ability to hold" criteria whereas GAAP uses an "intent and ability not to sell" criteria; and
(s) the investment in Federal Home Loan Bank stock is reported as an investment in common stock, unaffiliated, whereas for GAAP this is reported within other invested assets.

The Company's net income as presented in its consolidated financial statements prepared in conformity with GAAP was $208,620 and $177,683 for the years ended December 31, 2015 and 2014, respectively. The Company's equity as presented in its consolidated financial statements prepared in conformity with GAAP was $2,977,877 and $3,019,662 as of December 31, 2015 and 2014, respectively.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES The preparation of financial statements requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material reported amounts and disclosures that require extensive use of estimates are:

- ◊ Carrying value of certain invested assets and derivatives
- ◊ Liabilities for reserves and funds for payment of insurance and annuity benefits
- ◊ Accounting for income taxes and valuation of deferred income tax assets and liabilities and unrecognized tax benefits
- ◊ Litigation and other contingencies
- ◊ Pension and other postretirement and postemployment benefits

INVESTMENTS Bonds with a NAIC designation of 1 to 5 are valued at amortized cost. All other bonds are valued at the lower of cost or fair value. Fair value is determined using an external pricing service or management's pricing models.

For fixed income securities that do not have a fixed schedule of payments, including asset-backed and mortgage-backed securities, the effect on amortization or accretion is revalued three times per year based on the current estimated cash flows, using the retrospective method, except for favorable changes in expected cash flows for structured securities where the possibility of non-interest loss is other than remote. In these cases, income is recognized on the prospective method over the remaining life of the securities. Under the retrospective method, the recalculated effective yield equates the present value of the actual and anticipated cash flows, including new prepayment assumptions, to the original cost of the investment. Prepayment assumptions are based on borrower constraints and economic incentives such as original term, age, and coupon of the loan as affected by the interest rate environment. The current carrying value is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased. Cash flow assumptions for structured securities are obtained from broker dealer survey values or internal estimates. These assumptions are consistent with the current interest rate and economic environment.

Preferred Stock with a NAIC designation of 1 to 3 is valued at amortized cost. All other preferred stock is valued at the lower of cost or market. Fair value is determined using an external pricing service or management's pricing model.

Common Stock of the Company's insurance affiliates is carried at its underlying audited statutory equity. Common stock of audited non-insurance affiliates is admitted at the GAAP-basis equity. Common stock of unaudited non-insurance affiliates is nonadmitted. Unaffiliated common stock is carried at fair value. Dividends are recognized in net investment income on the ex-dividend date. Other changes in the carrying value of affiliates are recognized as changes in unrealized gains or losses in surplus. The investment in capital stock of the Federal Home Loan Bank of Pittsburgh ("FHLB-PGH") is carried at par, which approximates fair value. See the "Federal Home Loan Bank Borrowings" caption within this footnote for additional information on FHLB-PGH.

The non-interest portion is determined based on the Company's "best estimate" of future cash flows discounted to a present value using the appropriate yield. The difference between the present value of the best estimate of cash flows and the amortized cost is the non-interest loss. The remaining difference between the amortized cost and the fair value is the interest loss.

Real Estate occupied by the Company is carried at depreciated cost. Depreciated cost is adjusted for impairments whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable, with the impairment being included in realized capital losses. Depreciation is calculated using the straight-line method over the estimated useful life of the real estate holding, not to exceed 40 years. Depreciation expense is included in net investment income. The Company obtains an external appraisal on a tri-annual basis. The most recent appraisal was as of June 2013.

Policy Loans are carried at the aggregate balance of unpaid principal and interest.

Cash and Short-term investments Cash includes investments purchased with maturities of three months or less. Short-term investments, which are carried at amortized cost and approximate fair value, consist primarily of money market funds and investments purchased with maturities of greater than three months and less than or equal to 12 months.

Alternative Assets consist primarily of limited partnerships. The Company accounts for the value of its investments at their underlying GAAP equity. Dividends/income distributions from limited partnerships are recorded in investment income. Undistributed earnings are included in unrealized gains and losses and are reflected in surplus, net of deferred taxes. Distributions that are recorded as a return of capital reduce the carrying value of the limited partnership investment. Due to the timing of the valuation data received from the general partner, these investments are reported in accordance with the most recent valuations received which are primarily on a one quarter lag.

Other Invested Assets The Company utilizes derivative financial instruments, including interest rate swaps, inflation swaps, financial futures, currency forwards, interest rate caps and equity options, in the normal course of business to manage risk, in conjunction with its management of assets and liabilities and interest rate risk. The accounting treatment of specific derivatives depends whether on the financial instrument is designated and qualifies as a highly effective hedge. Derivatives used in hedging transactions that meet the criteria of a highly effective hedge are reported and valued in a manner that is consistent with the assets hedged. The change in fair value of these derivatives is recognized as an unrealized capital gain or (loss) until they are closed, at which time they are recorded in realized capital gains/ (losses). Derivatives used in risk management transactions that do not meet the criteria of an effective hedge are accounted for at fair value, with changes in fair value recorded in unrealized capital gains/ (losses). Derivatives with a positive fair value or carrying value are reported in Other invested assets. Derivatives with a negative fair value or carrying value are reported in Other liabilities. Realized gains and losses that are recognized upon termination or maturity of the derivatives used in economic hedges of interest rate risk of the fixed income portfolio, regardless of accounting treatment, are transferred, net of taxes, to the IMR. All other realized gains and losses are recognized in net income upon maturity or termination of derivative contracts.

The Company has entered into interest rate and currency swaps, interest rate futures and equity options in the form of call spreads that qualify for hedge accounting. The currency swaps have been designated to qualify as cash flow hedges of cash flows associated with foreign denominated securities in the investment portfolio. The equity options in the form of call spreads have been designated to qualify as cash flow hedges of cash flows associated with indexed credits related to the annual return of the S&P 500 Index on Indexed Universal Life (“IUL”) and Variable Universal Life (“VUL”) policies. The interest rate swaps have been designated to qualify as fair value hedges of the impact of changing interest rates on bonds in the corporate bond portfolio.

The Company may enter into interest rate swaps, total return swaps, inflation swaps, financial futures and equity options to hedge risks associated with the offering of equity market based guarantees in the Company’s annuity and indexed universal life insurance product portfolio, which do not meet the criteria of an effective hedge.

The Company uses currency forwards to hedge the risk embedded in its foreign currency denominated alternative assets. They are carried at fair value and do not meet the criteria of an effective hedge.

Interest rate caps, credit default swaps and receiver swaps, a type of interest rate swap, are carried at fair value. The Company’s use of interest rate caps is designed to manage risk associated with rising interest rates. Credit default swaps protect the Company from a decline in credit quality of a specified security. Receiver swaps protect the Company from credit risk in the fixed income portfolio. These do not meet the criteria of an effective hedge.

Investment income is recorded on an accrual basis. Amounts payable or receivable under total return, currency, credit default interest rate and inflation swap agreements are recognized as investment income or expense when incurred. The Company does not engage in derivative financial instrument transactions for speculative purposes. Refer to Note 6 for additional disclosures regarding derivatives.

The Company invests in LIHTC investments, which generate tax credits for investing in affordable housing projects. Investments in LIHTC are included in other invested assets and are accounted for under the cost method. The delayed equity contributions for these investments are unconditional and legally binding and therefore, have been recognized as a liability. LIHTC investments are reviewed for Other than temporary impairment (“OTTI”), which is accounted for as a realized loss. See Note 3 for additional information regarding LIHTC investments.

Other invested assets also include notes receivable from Janney Montgomery Scott, LLC (“JMS”), an affiliate, and the Company’s investment in its affiliate, ISP. See Note 11 for additional information regarding these other invested assets.

OTTI EVALUATION The carrying values of bonds, mortgage-backed, asset-backed securities, alternative assets and LIHTCs are written down when a decline is considered to be other-than-temporary.

Bonds, mortgage-backed and asset-backed securities The Company considers an impairment to be other-than-temporary if: (a) the Company’s intent is to sell, (b) the Company will more likely than not be required to sell, (c) the Company does not have the intent and ability to hold the security for a period of time sufficient to recover the amortized cost basis, or (d) the Company does not expect to recover the entire amortized cost basis. The Company conducts a periodic management review of all bonds including those in default, not-in-good standing, or otherwise designated by management. The Company also considers other qualitative and quantitative factors in determining the existence of OTTI including, but not limited to, unrealized loss trend analysis and significant short-term changes in value, default rates, delinquency rates, percentage of nonperforming loans, prepayments, and severities. If the impairment is other-than-temporary, the non-interest loss portion of the impairment is recorded through realized losses and the interest related portion of the loss is disclosed in the notes to the financial statements.

Alternative assets The Company’s evaluation for OTTI includes consideration of the remaining life of the partnerships and the performance of the underlying assets when evaluating the facts and circumstances surrounding the recovery of the cost of the partnership investments. Any such impairments are accounted for as a realized loss.

(In Thousands)

LIHTC OTTI for LIHTC investments is determined by comparing the book value of the investment with the present value of future tax benefits. The investment is written down if the book value is higher than the present value and the impairment is accounted for as a realized loss.

INVESTMENT INCOME DUE AND ACCRUED Investment income due and accrued consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned on the ex-dividend date. Due and accrued income is not recorded on: (a) bonds in default; (b) bonds delinquent more than 90 days or where collection of interest is improbable; and (c) policy loan interest due and accrued in excess of the cash surrender value of the underlying contract.

PREMIUMS DUE AND DEFERRED Deferred premium is the portion of premium not earned at the reporting date, net of loading. Loading is an amount obtained by subtracting the net premium from the gross premium and generally includes allowances for acquisition costs and other expenses. Deferred premium adjusts for the overstatement created in the calculation of reserves as the reserve computation assumes the entire year's net premium is collected annually at the beginning of the policy year and does not take into account installment or modal payments.

Uncollected premium is gross premium that is due and unpaid as of the reporting date, net of loading. Net premium is the amount used in the calculation of reserves. The change in loading is included as an expense and is not shown as a reduction to premium income. The deferred and uncollected amounts and loading were as follows at December 31:

	2015				2014			
	New	**Renewal**	**Group**	**Total**	**New**	**Renewal**	**Group**	**Total**
Uncollected premium	$ 126	$ 8,570	NA		$ 233	$ 7,771	NA	
Uncollected loading	(98)	(1,117)	NA		(194)	(622)	NA	
Net uncollected	28	7,453	$420	$ 7,901	39	7,149	$385	$ 7,573
Deferred premium	10,979	51,853	NA		9,890	46,999	NA	
Deferred loading	(8,499)	8,678	NA		(7,631)	7,862	NA	
Net deferred	2,480	60,531	7	63,018	2,259	54,861	8	57,128
Subtotal — gross deferred and uncollected				70,919				64,701
Nonadmitted				(1,123)				(1,150)
Premiums due and deferred , net				$69,796				$63,551

FEDERAL INCOME TAX The Company files a consolidated federal income tax return with its insurance and non-insurance subsidiaries. Each subsidiary's tax liability or refund is accrued on a benefits for loss basis. The Company reimburses subsidiaries for losses utilized in the consolidated return based on inter-company tax allocation agreements. The provision for federal income taxes is computed in accordance with the section of the Internal Revenue Code applicable to life insurance companies and is based on income that is currently taxable.

Uncertain tax positions ("UTP") are established when the merits of a tax position are evaluated against certain measurement and recognition tests. UTP changes are reflected as a component of income taxes.

Deferred income tax assets and liabilities are established to reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred tax assets or liabilities are measured by using the enacted tax rates expected to apply to taxable income in the period in which the deferred tax liabilities or assets are expected to be settled or realized. Changes in the deferred tax balances are reported as adjustments to surplus. Deferred tax assets, after the consideration of any necessary valuation allowance, in excess of the statutory limits are treated as nonadmitted assets and charged to surplus.

CORPORATE OWNED LIFE INSURANCE The Company purchases life insurance policies on certain officers and employees on which the Company is designated as the beneficiary. The Company recognizes the cash surrender value of the policies as an asset on the Statement of Admitted Assets, Liabilities and Surplus. Changes in the cash surrender value of the policies are recorded as an adjustment to the premiums paid for the insurance coverage, which is recognized as part of interest credited to policyholders within Benefit paid to policyholders and beneficiaries on the Statements of Income.

REINSURANCE In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers under excess coverage and coinsurance contracts. The Company has set its retention limit for acceptance of risk on life insurance policies at various levels up to $5,000 for single life and $7,500 for joint lives.

Reinsurance does not relieve the Company of its primary liability and, as such, failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the risk transfer of its reinsurance contracts and the financial strength of potential reinsurers. The Company regularly monitors the financial condition and ratings of its existing reinsurers to ensure that amounts due from reinsurers are collectible.

Insurance liabilities are reported net of the effects of reinsurance. Estimated reinsurance recoverables are recognized in a manner consistent with the liabilities related to the underlying reinsured contracts. See Note 10 for further discussion.

Funds Held Under Coinsurance The Company records a liability for funds held pursuant to a 70% coinsurance with funds withheld agreement entered into with PIA. The liability represents the economic reserves under the terms of the reinsurance agreement. Refer to Note 8 for further discussion of this reinsurance agreement.

OTHER ASSETS Computer equipment and packaged software is reported at cost of $100,608 and $97,032 less accumulated depreciation of $81,467 and $79,168 at December 31, 2015 and 2014, respectively. Computer equipment and packaged software is depreciated using the straight-line method over the lesser of its useful life or three years. Depreciation expense on computer equipment and packaged software charged to operations in 2015 and 2014 was $2,299 and $1,825, respectively. Furniture is depreciated on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the remaining life of the lease. Building and property improvements are depreciated to the lesser of contractor estimate or the remaining life of the building.

In 2013, the Company entered into agreements to sell, and subsequently leaseback, certain assets. These agreements are considered operating leases. See Note 12 for additional discussion of these leaseback commitments.

Other assets also includes receivables related to centrally cleared derivative transactions, receivables for collateral remitted to counterparties, amounts due from affiliates under the terms of service agreements. See Note 6 for additional information regarding derivative transactions and Note 11 for additional information regarding related party transactions.

SEPARATE ACCOUNT ASSETS AND LIABILITIES The Company has separate account assets and liabilities representing segregated funds administered and invested by the Company primarily for the benefit of variable life insurance policyholders and annuity and pension contractholders, including the Company's benefit plans. The assets of each account are legally segregated and are generally not subject to claims that arise out of any other business of the Company. The Separate accounts have varying investment objectives.

Separate account assets are stated at the fair value of the underlying assets, which are shares of mutual funds. The value of the assets in the Separate accounts reflects the actual investment performance of the respective accounts and is not guaranteed by the Company. The liability represents the policyholders' interest in the account and includes accumulated net investment income and realized and unrealized capital gains/ (losses) on the assets, which reflects fair value. The investment income and realized capital gains/(losses) from separate account assets accrue to the policyholders and are not included in the Statements of Income. Mortality, policy administration, surrender charges assessed and asset management fees charged against the accounts are included in other revenue in the accompanying Statements of Income.

The Company issues variable annuity contracts in the separate accounts in which the Company provides various forms of guarantees to benefit the related contract holders called Guaranteed Minimum Death Benefits ("GMDB"), Guaranteed Minimum Accumulated Benefits ("GMAB"), GMAB/Guaranteed Minimum Withdrawal Benefits ("GMWB") and GMWB with inflation protection. In accordance with guarantees provided, if the investment proceeds in the separate accounts are insufficient to cover the guarantees for the product, the policyholder proceeds will be remitted by the general account. See Note 4 for a discussion of the Company's obligation regarding these product features.

NONADMITTED ASSETS Assets designated as nonadmitted by the NAIC include furniture, certain electronic data processing equipment, unamortized software, the amount of the deferred tax asset that is in excess of limits prescribed by SAP, the pension plan assets, certain investments in partnerships for which financial audits are not performed, certain other receivables, advances and prepayments, and uncollected premiums greater than 90 days from the due date. Such amounts are excluded from the Statements of Admitted Assets, Liabilities and Surplus. As of December 31, 2015 and 2014, the Company's total nonadmitted assets were $184,986 and $159,908, respectively.

RESERVES AND FUNDS FOR THE PAYMENT OF INSURANCE AND ANNUITY BENEFITS Policyholders' reserves provide amounts adequate to discharge estimated future obligations in excess of estimated future premium on policies in-force. Any adjustments that are made to the reserve balances are reflected in the Statements of Income in the year in which such adjustments are made, with the exception of changes in valuation bases which are accounted for as charges or credits to surplus.

Reserves and funds for the payment of future life and annuity benefits are developed using actuarial methods based on statutory mortality and interest requirements. Reserves for life insurance contracts are developed using accepted actuarial methods computed principally on the net level, modified preliminary term or CRVM methods using the 1941, 1958, 1980, and 2001 Commissioners' Standard Ordinary Mortality and American Experience Tables and assumed interest rates ranging from 2.25% to 4.50%. Reserves for substandard policies are computed using multiples of the respective underlying mortality tables. The Company has universal life contracts with secondary guarantee features. The Company establishes reserves according to Actuarial Guideline XXXVIII.

The Company waives deduction of deferred fractional premium at death and returns any portion of the final premium beyond the date of death. Reserves are computed using continuous functions to reflect these practices. Surrender values are not promised in excess of the legally computed reserves.

Reserves for deferred fixed individual annuity contracts are developed using accepted actuarial methods computed principally under the Commissioners' Annuity Reserve Valuation Method using applicable interest rates and mortality tables, primarily on the 1949, 1971, 1983 and 2000 Individual Annuity Mortality Tables and rates ranging from 2.00% to 13.25%.

The Company also has deferred variable annuity contracts containing GMDB, GMAB and GMWB features. The Company establishes reserves according to requirements prescribed by the NAIC in Actuarial Guideline XLIII (VACARVM). See Note 4 for further discussion.

Reserves for group annuity contracts are developed using accepted actuarial methods computed principally on the 1971 and 1983 Group Annuity Mortality Tables and 1994 Group Annuity Reserving Tables with assumed interest rates ranging from 4.50% to 13.25%.

The Company had $5,665,313 and $6,407,597 and as of December 31, 2015 and 2014, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standards of valuation set by the Commonwealth of Pennsylvania.

The tabular interest has been determined from the basic data for the calculation of policy reserves. The tabular less actual reserves released have been determined by formula.

LIABILITIES FOR DEPOSIT-TYPE CONTRACTS Reserves for funding agreements, dividend accumulations, premium deposit funds, investment-type contracts such as supplementary contracts not involving life contingencies, and certain structured settlement annuities are based on account value or accepted actuarial methods using applicable interest rates.

The tabular interest for funds not involving life contingencies is determined as the change in reserves less funds added during the year less other increases, plus funds withdrawn during the year-end.

POLICYHOLDER' DIVIDENDS The liability for policyholders' dividends includes the estimated amount of annual dividends and settlement dividends to be paid to policyholders in the following year. Policyholders' dividends incurred are recorded in the Statements of Income. Dividends expected to be paid to policyholders in the following year are approved annually by the Company's Board of Trustees. The allocation of these dividends to policyholders reflects the relative contribution of each group of participating policies to surplus and considers, among other factors, investment returns, mortality and morbidity experience, expenses, and income tax charges.

POLICY CLAIMS IN PROCESS include provisions for payments to be made on reported claims and claims incurred but not reported.

INTEREST MAINTENANCE RESERVE The IMR captures the realized capital gains/ (losses) that result from changes in the overall level of interest rates and amortizes them into income over the calendar years to expected maturity.

ASSET VALUATION RESERVE AVR is a contingency reserve to stabilize surplus against fluctuations in the statement value of common stocks, real estate investments, partnerships, LIHTC investments, and LLCs as well as non-interest related declines in the value of bonds, and certain derivatives. The AVR is reported in the Statements of Admitted Assets, Liabilities and Surplus and the change in AVR is reported in the Statements of Changes in Surplus.

DRAFTS OUTSTANDING that have not been presented for payment are recorded as a liability.

OTHER LIABILITIES Other liabilities primarily include accruals for general and operating expense, the fair value of certain derivative contracts in a loss position, collateral received from counterparties related to certain derivative contracts (see Note 6 for additional discussion of derivatives), life insurance premiums received in advance of the due date, net transfers due from the separate accounts, and liabilities related to postretirement benefit plans in an underfunded position. See Note 8 for additional disclosures on the Company's benefit plans.

BENEFIT PLANS The Company recognizes a liability for the funded status of defined benefit pension and post retirement plans where the projected benefit obligation exceeds plan assets (underfunded) and nonadmits assets for the funded status of defined benefit pension and post retirement plans where the fair value of plan assets exceed the projected benefit obligation (overfunded). See Note 8 for additional disclosures on the Company's benefit plans.

CONTINGENCIES Amounts related to contingencies are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Regarding litigation, management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, includes these costs in the accrual. See Note 12 for further discussion.

SURPLUS NOTES On July 1, 2010, the Company issued Surplus Notes ("2010 Notes") with a principal balance of $200,000, at a discount of $8,440. The 2010 Notes bear interest at 7.625%, and have a maturity date of June 15, 2040. The 2010 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended and are administered by a U.S. bank as registrar/paying agent. Interest on the 7.625% 2010 Notes is scheduled to be paid semiannually on March 31 and September 30 of each year. At December 31, 2015 and 2014, the amortized cost basis of the 2010 Notes was $192,065 and $191,956, respectively. Interest paid on the 2010 Notes was $15,250 and $15,250 for the years ended December 31, 2015 and 2014, respectively. Total interest paid since the issuance of the 2010 Notes is $80,063.

On June 23, 2004, the Company issued Surplus Notes ("2004 Notes") with a principal balance of $200,000, at a discount of $3,260. The 2004 Notes bear interest at 6.65%, and have a maturity date of June 15, 2034. The 2004 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended and are administered by a U.S. bank as registrar/paying agent. Interest on the 6.65% 2004 Notes is scheduled to be paid semiannually on April 1 and October 1 of each year. At December 31, 2015 and 2014, the amortized cost basis of the 2004 Notes was $197,347 and $197,275, respectively. Interest paid on the 2004 Notes was $13,300 and $13,300 for the years ended December 31, 2015 and 2014, respectively. Total interest paid since the issuance of the 2004 Notes is $149,920.

Interest expense on surplus notes requires prior approval from the Pennsylvania Insurance Department.

RISK-BASED CAPITAL Life insurance companies are subject to certain risk-based capital (RBC) requirements as specified by the NAIC. Under those requirements, minimum amounts of statutory surplus are required to be maintained based on various risk factors related to it. At December 31, 2015, the Company's surplus exceeds these minimum levels.

PREMIUM AND RELATED EXPENSE RECOGNITION Life insurance premium revenue is generally recognized as revenue on the gross basis when due from the policyholders under the terms of the insurance contract. Annuity premium on policies with life contingencies is recognized as revenue when received. Both premium and annuity considerations are recorded net of reinsurance premiums. Commissions and other costs related to issuance of new policies, and policy maintenance and settlement costs are charged to current operations when incurred. Surrender fee charges on certain life and annuity products are recorded as a reduction of benefits. Benefit payments are reported net of the amounts received from reinsurers.

The Company accounts for deposit-type contracts (those that do not subject the Company to mortality or morbidity risk) under the deposit method. Amounts received from and payments to policyholders related to these contracts are recorded directly against the related policy reserves. Interest credited to policyholder accounts is reflected in benefits paid to policyholders and beneficiaries. Fees charged to policyholder accounts are reflected in Other revenue.

OTHER REVENUE Other revenue includes commission and expense allowance recognized by the Company pursuant to reinsurance agreements, as well as the modified coinsurance reserve adjustment relating to a coinsurance/modified coinsurance reinsurance agreement entered into with a third party effective December 31, 2015. Other revenue also includes fees charged to policyholders.

OTHER EXPENSES Other expenses includes amounts paid to PIA relating to interest earned on the funds withheld assets held by the Company pursuant to the 70% coinsurance with funds withheld agreement entered into with PIA that is discussed in Note 10. Other expenses also includes benefits paid by the Company under reinsurance agreements with PIA relating to index credits on certain universal life policies.

REALIZED AND UNREALIZED CAPITAL GAINS AND LOSSES Realized capital gains and losses, net of taxes, excludes gains and losses transferred to the IMR. Realized capital gains and losses are recognized in net income and are determined using the specific identification method.

All after-tax realized capital gains and losses which result from changes in the overall level of interest rates for all types of fixed-income investments and interest-related derivative activities for derivatives backing assets are transferred to the IMR and amortized into revenue. These interest-related gains and losses are amortized into net investment income using the grouped method over the remaining life of the investment sold or, in the case of derivative financial instruments, over the remaining life of the underlying asset.

Unrealized capital gains and losses, net of deferred federal income taxes, are recorded as a change in surplus.

FEDERAL HOME LOAN BANK BORROWINGS In August 2014, the Company became a member of the FHLB-PGH, which provides access to collateralized advances, collateralized funding agreements, and other FHLB-PGH products. Collateralized advances from the FHLB-PGH are classified in "Borrowed money." Collateralized funding agreements issued to the FHLB-PGH are classified as liabilities for deposit-type funds and are recorded within "Reserves and funds for payment of insurance and annuity benefits." FHLB-PGH is a first-priority secured creditor.

The Company' s membership in FHLB-PGH requires the ownership of member stock, and borrowings from FHLB-PGH require the purchase of FHLB-PGH activity based stock in an amount equal to 4% of the outstanding borrowings. All FHLB-PGH stock purchased by the Company is classified as restricted general account investments within "Common stock—unaffiliated." The Company's borrowing capacity is determined by the lesser of the assets available to be pledged as collateral to FHLB-PGH or 10% of the Company's prior period admitted general account assets. The fair value of the qualifying assets pledged as collateral by the Company must be maintained at certain specified levels of the borrowed amount, which can vary, depending on the nature of the assets pledged. The Company's agreement allows for the substitution of assets and the advances are pre-payable. Current borrowings are subject to prepayment penalties.

(In Thousands)

As of December 31, 2015 and 2014, borrowings from the FHLB-PGH, segregated by those classified as advances and funding agreements, including the maximum outstanding during the years ended December 31 were as follows:

	2015	Maximum during 2015	2014	Maximum during 2014
Debt — Advances	$ —	$ —	$—	$ —
Funding Agreements	450,000	450,000	—	100,000
Total	$450,000	$450,000	$—	$100,000

NEW ACCOUNTING STANDARDS

During 2015 the NAIC adopted revisions to SSAP No. 69, "Statement *of Cash Flow (SSAP* No. 69)," which clarified that the Statutory Statement of Cash Flow shall include only those transactions involving cash. These revisions are effective for the year ended December 31, 2015 and have been reflected in the Company's Statement of Cash Flows.

During 2015, the NAIC adopted revisions to SSAP No. 93, "Accounting *for LIHTC Property Investments* (SSAP No. 93)," which became effective for the year ended December 31, 2015. These revisions clarify the statutory accounting treatment for LIHTC investments in light of recent U.S. GAAP guidance impacting LIHTC's. For statutory accounting purposes, LIHTC investments continue to be amortized utilizing a proportional amortized cost method and the inclusion of federal tax benefits received during the holding period. Additionally, the revisions added certain disclosure regarding the amount of low-income housing tax credits and other tax benefits recognized during the years presented, and the balance of the investment recognized in the statement of financial position for the reporting periods presented. The Company has adopted the disclosure requirements, which are included in Note 3 and Note 9.

During 2015, the NAIC adopted revisions to SSAP No. 97, "Investments *in Subsidiary, Controlled and Affiliated Entities*" ("SCA"). These revisions include new requirement for reporting entities to disclose the gross, nonadmitted, and net admitted values of non-insurance SCAs, as well as certain information regarding the filing of such SCAs with the NAIC Securities Valuation Office. The additional disclosure requirements became effective for the year ended December 31, 2015. The Company has adopted the disclosure requirements, which are included in Note 11.

Note 3. INVESTMENTS

The Company maintains a diversified investment portfolio. Investment policies limit concentration in any asset class (except for U.S. Treasury and U.S. Government guaranteed securities), geographic region, industry group, economic characteristic, investment quality, or individual investment.

BONDS AND PREFERRED STOCK The following summarizes the admitted value and estimated fair value of the Company's investment in bonds and preferred stock as of December 31:

2015	Admitted Value	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Estimated Fair Value
U.S. Treasury, U.S. Agency and other governmental securities	$ 267,478	$ 6,891	$ 7,585	$ 266,784
States and political subdivisions	1,116,530	129,477	7,489	1,238,518
Corporate securities	4,019,897	270,799	132,668	4,158,028
Residential mortgage-backed securities	210,292	15,549	1,002	224,839
Commercial mortgage-backed securities	1,480,434	40,462	20,520	1,500,376
Asset-backed securities	1,040,326	22,600	25,205	1,037,721
Total bonds	8,134,957	485,778	194,469	8,426,266
Redeemable preferred stock	72,595	4,456	53	76,998
TOTAL BONDS AND PREFERRED STOCK	**$8,207,552**	**$490,234**	**$194,522**	**$8,503,264**

(In Thousands)

2014	Admitted Value	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Estimated Fair Value
U.S. Treasury, U.S. Agency and other governmental securities	$ 408,464	$ 9,143	$ 2,816	$ 414,791
States and political subdivisions	968,415	176,569	887	1,144,097
Corporate securities	3,807,116	471,248	18,752	4,259,612
Residential mortgage-backed securities	161,249	20,290	117	181,422
Commercial mortgage-backed securities	1,404,702	89,916	2,971	1,491,647
Asset-backed securities	778,542	39,679	7,376	810,845
Total bonds	7,528,488	806,845	32,919	8,302,414
Redeemable preferred stock	72,905	3,376	248	76,033
TOTAL BONDS AND PREFERRED STOCK	**$7,601,393**	**$810,221**	**$33,167**	**$8,378,447**

Included in the table above are securities held in custody and restricted for use under a reinsurance agreement with an admitted value and fair value totaling $632,040 and $693,765, respectively, as of December 31, 2015 and $574,172 and $682,537, respectively as of December 31, 2014.

The following table summarizes the admitted value and estimated fair value of debt securities as of December 31, 2015 by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties. Securities that are not due on a single maturity are included as of the final maturity.

	Admitted Value	Estimated Fair Value
Due in one year or less	$ 98,385	$ 99,859
Due after one year through five years	550,503	591,093
Due after five years through ten years	1,072,131	1,056,697
Due after ten years	3,504,650	3,739,087
Residential mortgage-backed securities(1)	273,181	283,028
Commercial mortgage-backed securities(1)	1,527,514	1,548,465
Asset-backed securities(1)	1,108,593	1,108,037
Total bonds	8,134,957	8,426,266
Redeemable preferred stock	72,595	76,998
TOTAL BONDS AND PREFERRED STOCK	**$8,207,552**	**$8,503,264**

(1) Includes U.S. Treasury/Agency structured securities

Mortgage and other asset-backed securities consist of commercial and residential mortgage pass-through holdings, securities backed by home equity and manufactured housing loans, credit tenant leases and equipment trust certificates. These securities follow a structured principal repayment schedule and are rated investment grade, other than $67,210, primarily in asset-backed securities. The mortgage and other asset-backed securities portfolios are presented separately in the maturity schedule due to the potential for prepayment. The weighted average life of this portfolio is 5.70 years.

Investments on deposit with regulatory authorities as required by law were $3,859 and $3,808 at December 31, 2015 and 2014, respectively. Investments pledged as collateral for derivative contracts were $17,752 and $3,821 at December 31, 2015 and 2014, respectively. These investments are not available for use by the Company. The Company also has pledged collateral in the form of cash for certain derivative transactions. Refer to Note 6 for additional disclosures on derivatives and related collateral.

(In Thousands)

At December 31, 2015, the largest industry concentration of the Company's portfolio was investments in the electric utilities sector of $614,847, representing 7.5% of the total debt securities portfolio.

CREDIT LOSS ROLLFORWARD

The following represents a rollforward of the cumulative credit loss component of OTTI loss recognized in earnings on fixed maturity securities still held for which a portion of the OTTI loss was not recognized in earnings.:

As of December 31,	2015	2014
Balance, beginning of period	$30,731	$30,762
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	—	(31)
Credit loss impairments previously recognized on securities impaired to fair value during the period	—	—
Credit loss impairment recognized in the current period on securities not previously impaired	—	—
Additional credit loss impairments recognized in the current period on securities previously impaired	—	—
Balance, end of period	**$30,731**	**$30,731**

UNREALIZED LOSSES ON INVESTMENTS

Management has determined that the unrealized losses on the Company's investments in equity and fixed maturity securities at December 31, 2015 are temporary in nature.

The following tables are an analysis of the fair values and gross unrealized losses aggregated by bond category and length of time that the securities were in a continuous unrealized loss position as of December 31:

	Less than 12 months		Greater than 12 months		Total	
2015	**Fair Value**	**Gross Unrealized Capital Loss**	**Fair Value**	**Gross Unrealized Capital Loss**	**Fair Value**	**Gross Unrealized Capital Loss**
U.S. Treasury, U.S. Agency and other governmental securities	$ 149,978	$ 7,585	$ 5	$ —	$ 149,983	$ 7,585
States and political subdivisions	201,214	6,743	12,789	746	214,003	7,489
Corporate securities	1,446,874	109,186	81,069	23,482	1,527,943	132,668
Residential mortgage-backed securities	70,638	1,002	—	—	70,638	1,002
Commercial mortgage-backed securities	484,300	18,287	28,687	2,233	512,987	20,520
Asset-backed securities	559,261	18,250	68,775	6,955	628,036	25,205
Total Bonds	2,912,265	161,053	191,325	33,416	3,103,590	194,469
Redeemable Preferred Stock	4,072	32	1,180	21	5,252	53
TOTAL BONDS AND PREFERRED STOCK	**$2,916,337**	**$161,085**	**$192,505**	**$33,437**	**$3,108,842**	**$194,522**

(In Thousands)

2014	Less than 12 months Fair Value	Less than 12 months Gross Unrealized Capital Loss	Greater than 12 months Fair Value	Greater than 12 months Gross Unrealized Capital Loss	Total Fair Value	Total Gross Unrealized Capital Loss
U.S. Treasury, U.S. Agency and other governmental securities	$101,231	$ 1,797	$ 46,651	$ 1,019	$ 147,882	$ 2,816
States and political subdivisions	16,642	322	8,305	565	24,947	887
Corporate securities	375,393	10,582	182,082	8,170	557,475	18,752
Residential mortgage-backed securities	4,883	117	—	—	4,883	117
Commercial mortgage-backed securities	142,483	2,898	14,943	73	157,426	2,971
Asset-backed securities	248,320	4,501	30,583	2,875	278,903	7,376
Total Bonds	888,952	20,217	282,564	12,702	1,171,516	32,919
Redeemable Preferred Stock	21,437	236	788	12	22,225	248
TOTAL BONDS AND PREFERRED STOCK	**$910,389**	**$20,453**	**$283,352**	**$12,714**	**$1,193,741**	**$33,167**

Included in the December 31, 2015 amounts above is the interest portion of other-than-temporary impairments on securities of $159.

Unrealized losses on debt securities that were in an unrealized loss position less than twelve months at December 31, 2015, totaled 83% of the Company's total fixed maturities unrealized loss, and unrealized losses on securities in an unrealized loss position greater than twelve months totaled 17% of the Company's total fixed maturities unrealized loss. Of the total amount of debt securities unrealized losses, $172,900 or 89% is related to unrealized losses on investment grade securities. Investment grade is defined as a security having a credit rating in accordance with the NAIC methodology of 1 or 2. Unrealized losses on fixed maturity securities with a rating below investment grade represent $21,623 or 11% of the Company's total fixed maturities unrealized losses.

The net increase in the number of securities with fair values below amortized cost and in the amount of unrealized capital losses is primarily related to the increasing interest rate environment; the 10yr and 30yr treasury rates rose 10 basis points and 27 basis points, respectively. Additionally, credit spreads widened across all major asset classes.

U.S. Treasury, U.S Agency and Other Governmental Securities Unrealized losses on the Company's investments in U.S. Treasury, U.S. Agency and other governmental obligations were $7,585 or 4% of the Company's unrealized losses for debt securities. These were spread over 19 securities primarily related to the increasing interest rate environment.

States and Political Subdivisions Unrealized losses on the Company's investments in states and political subdivisions were $7,489 or 4% of the Company's unrealized losses for debt securities. These were spread over 60 securities and the increase in value is attributable to an increase in treasury rates since purchase and widening credit spreads for select names.

Corporate Securities Unrealized losses on corporate securities, which were primarily attributable to widening credit spreads and increasing interest rates since the date of purchase, were $132,668 or 68% of the total unrealized losses for debt securities. The amount of unrealized losses on the Company's investment in corporate securities is spread over 423 individual securities with varying interest rates and maturities. There were 41 corporate securities with a fair value below 80% of the security's amortized cost. The decline in fair value is primarily attributable to the increase in interest rates plus widening of credit spreads among investment grade and high yield.

Residential and Commercial Mortgage-Backed Securities Unrealized losses on mortgage-backed securities were $21,522 or 11% of the total unrealized losses for debt securities. The amount of unrealized capital losses on the

(In Thousands)

Company's investment in mortgage-backed securities was due to several factors, depending upon the security. In general, the causes were: the increase in Treasury rates, and spread widening specific to some individual securities. These losses were spread across 107 fixed and variable rate securities, 100% of which are investment grade. There were no mortgage-backed securities that were priced below 80% of the security's amortized cost. Management believes the collateral is sufficient to recover amortized cost. The Company measures its mortgage-backed portfolio for impairments based on the security's credit rating and whether the security has an unrealized loss. When the fair value of the security is below amortized cost and there are negative changes in estimated future cash flows, the security is deemed other than temporarily impaired. The Company also evaluates these securities for other than temporary impairments based on facts and circumstances, even if there has been no negative change in estimated future cash flows.

Asset-Backed Securities Unrealized losses on asset-backed securities were $25,205 or 13% of the total unrealized losses for debt securities. The unrealized losses on these investments are primarily related to the increase in short-term interest rates and widening spreads for select issues. These losses are spread across 113 securities. Similar to mortgage-backed securities, the Company measures its asset-backed portfolio for impairments based on the security's credit rating and whether the security has an unrealized loss. When the fair value of a security is below amortized cost and there are negative changes in estimated future cash flows, the security is deemed other-than-temporarily impaired. The Company also evaluates these securities for other-than-temporary impairments based on facts and circumstances, even if there has been no negative change in estimated future cash flows. There were 3 asset-backed securities that were priced below 80% of the security's amortized cost.

Redeemable Preferred Stock Unrealized capital losses on redeemable preferred stock were $53 or 0% of the total unrealized capital losses for debt securities. The amount of unrealized capital losses on the Company's investment in redeemable preferred stock is spread over 20 individual securities. There were no redeemable preferred stocks that were priced below 80% of the security's amortized cost.

COMMON STOCK – UNAFFILIATED Unaffiliated equity securities had gross unrealized capital gains of $0 and $127 and gross unrealized capital losses of $23,365 and $3,359 as of December 31, 2015 and 2014, respectively.

The following presents the gross unrealized capital losses and fair values for unaffiliated common stock with unrealized capital losses that are deemed to be only temporarily impaired and length of time that individual securities have been in an unrealized capital loss position, at:

	Less than 12 months		Greater than 12 Months		Total	
	Fair Value	Gross Unrealized Capital Losses	Fair Value	Gross Unrealized Capital Losses	Fair Value	Gross Unrealized Capital Losses
Common stock — unaffiliated — December 31, 2015	$25,317	$6,834	$50,207	$16,531	$75,524	$23,365
Common stock — unaffiliated — December 31, 2014	57,253	2,863	1,470	496	58,723	3,359

The amount of unrealized capital losses on the Company's investment in unaffiliated common stock is spread over 16 individual securities. There were 8 unaffiliated common stock securities that were priced below 80% of the security's cost. Management has determined that the unrealized losses on the Company's investments in unaffiliated common stock at December 31, 2015 are temporary in nature. For further discussion on how the Company evaluates the impairment, see Note 2.

Federal Home Loan Bank The Company's investment in the FHLB-PGH Class B Membership Capital Stock as of December 31, 2015 and 2014 was $1,513 and $1,621, respectively. The Company also invested $18,000 and $0 in FHLB-PGH Activity Stock as of December 31, 2015 and 2014. The Class B Membership Capital Stock held by the Company is subject to written notices of requests for redemption followed by a five year waiting period.

As of December 31, 2015 and 2014, the Company's borrowing capacity with the FHLB-PGH was $685,916 and $916,675, respectively.

(In Thousands)

The following represents the amount of collateral pledged to the FHLB-PGH, and the maximum amount of collateral pledged is as follows:

	December 31, 2015	Maximum during 2015	December 31 2014	Maximum during 2014
Carrying value	$496,789	$498,253	$—	$106,609
Fair value	531,031	544,091	—	114,763

The amount of interest paid to FHLB-PGH on borrowings classified as funding agreements for the years ended December 31, 2015 and 2014 was $1,304 and $54, respectively.

OTHER THAN TEMPORARY IMPAIRMENTS ON LOAN-BACKED SECURITIES There were no other-than-temporary impairments recognized on loan-backed securities for the years ended December 31, 2015 and 2014.

REAL ESTATE Investments in real estate consist of the Company's home office property. As of December 31, 2015 and 2014, accumulated depreciation on real estate amounted to $19,840 and $18,601, respectively.

ALTERNATIVE ASSETS The following table presents the Company's Alternative assets portfolio as of December 31:

2015	Carrying Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Venture capital	$170,284	$132,893		
MBO	54,482	74,197		
Distressed	48,041	25,494		
Real asset	56,586	59,790		
Mezzanine	19,412	15,013		
Infrastructure*	18,684	153	Semi-annually	30 days
Hedge funds	40,798	0	Monthly	5 - 90 days
Secondaries	7,179	12,158		
Fund of funds	15,156	4,495		
Senior mezzanine	10,381	8,646		
Direct lending	9,234	2,179		
Total Alternative Assets	**$450,237**	**$335,018**		

* Redemption option only applies to one infrastructure fund (Value = $7,538; Unfunded Commitment = $0)

2014	Carrying Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Venture capital	$125,267	$ 87,161		
MBO	45,374	29,083		
Distressed	44,430	18,744		
Real asset	52,021	37,404		
Mezzanine	23,932	19,934		
Infrastructure*	20,296	133	Semi-annually	30 days
Hedge funds	48,027	—	Monthly	5 days
Secondaries	7,150	2,643		
Fund of funds	15,935	6,775		
Senior mezzanine	7,482	10,931		
Direct lending	8,154	3,967		
Total Alternative Assets	**$398,068**	**$216,775**		

* Redemption option only applies to one infrastructure fund (Value = $8,071; Unfunded Commitment = $0)

(In Thousands)

The investment values are provided per the partnerships' capital statements. The Company has reviewed events that have occurred since the date the values were calculated and has determined that no adjustments to the calculated values are necessary. With the exception of four open-ended investments within the portfolio, the Company's interest cannot be redeemed. Instead, distributions from each fund result from the liquidation of the underlying assets. The period over which unredeemable investments are expected to be liquidated ranges from 5 to 10 years.

As of December 31, 2015, none of these investments exceed 10% of the Company's admitted assets. The Company recognized realized losses of $5,340 and $1,551 for the years ended December 31, 2015 and 2014, respectively, associated with other-than-temporary impairments of certain partnership investments.

The Company recognized realized gains of $283 and $408 for the years ended December 31, 2015 and 2014, respectively, associated with redemptions from hedge fund investments.

OTHER INVESTED ASSETS The components of other invested assets as of December 31, 2015 and 2014 were as follows:

	2015	2014
Derivatives	$ 59,602	$ 62,995
LIHTC	66,582	52,627
Other invested assets — affiliated	353,121	340,172
Other invested assets — unaffiliated	1,855	2,230
Total other invested assets	**$481,160**	**$458,024**

Refer to Note 6 for discussion on Derivatives. Other invested assets-affiliated, represents the Company's investment in its subsidiary, ISP and notes receivable held by the Company from JMS, a subsidiary of ISP. Refer to Note 11 for additional discussion on Other invested assets-affiliated.

Low Income Housing Tax Credits The Company has no LIHTC properties under regulatory review at December 31, 2015 and 2014. There were no write-downs due to forfeiture of eligibility and there were no impairments during the years ended December 31, 2015 or 2014.

Commitments of $21,777 and $2,559 have been recorded in other liabilities as of December 31, 2015 and 2014, respectively. The Company has unexpired tax credits with remaining lives ranging between 8-13 years and required holding periods for its LIHTC investments between 11-16 years.

(In Thousands)

NET INVESTMENT INCOME AND REALIZED CAPITAL GAINS/ (LOSSES) The following table summarizes the major categories of net investment income for the years ended:

December 31,	2015	2014
Income:		
Bonds and preferred stock	$436,133	$422,614
Common stocks — affiliated	46,600	10.500
Unaffiliated	9,930	2,092
Real estate	2,760	2,760
Policy loans	14,810	15,202
Alternative assets	43,641	35,282
Other invested assets	18,279	31,007
Other	768	490
Derivatives	9,198	11,295
IMR amortization	(1,728)	(2,305)
Total investment income	580,391	528,937
Expenses:		
Surplus note interest	28,731	28,718
Depreciation of real estate	1,240	973
Other investment expenses	18,576	18,880
Total investment expenses	48,547	48,571
NET INVESTMENT INCOME	**$531,844**	**$480,366**

During 2015 and 2014, proceeds from sales of bonds, preferred stock, and common stocks, and related gross realized gains and losses on those sales were as follows for the years ended December 31:

	2015			2014		
	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
Bonds	$547,690	$34,816	$11,693	$1,272,076	56,171	13,727
Preferred stock	10,288	—	249	7,582	135	—
Common stock	66,265	546	—	11,276	44	188

In addition, during the years ended December 31, 2015 and 2014, the Company recognized realized losses of $2,358 and $0, respectively, related to the impairment of debt securities.

There was no nonadmitted accrued investment income at December 31, 2015 and 2014, respectively.

Realized capital gains/ (losses) are reported net of federal income taxes and amounts transferred to the IMR as follows for the years ended:

December 31,	2015	2014
Realized capital gains/(losses)	$47,082	$67,205
Less:		
Amount transferred to IMR (net of related taxes of $(26,710) in 2015 and $(23,440) in 2014)	9,641	19,402
Income tax effect on realized capital gains/(losses)	26,710	30,405
NET REALIZED CAPITAL GAINS/(LOSSES)	**$10,731**	**$17,398**

(In Thousands)

Portions of realized capital gains and losses that were determined to be interest related were transferred to the IMR.

The Company did not sell any securities with the NAIC's designation 3 or below during the years ended December 31, 2015 and 2014 that were reacquired within 30 days of the sale date.

STRUCTURED NOTES The following table represents structured notes held by the Company as of December 31:

2015

CUSIP Identification	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage-Referenced Security (Y/N)
3136F9RQ8	$ 1,294	$ 1,564	$ 1,423	N
912810FD5	182	236	135	N
912828C99	51,317	50,454	51,115	N
912828WU0	19,575	19,026	19,610	N

2014

CUSIP Identification	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage-Referenced Security (Y/N)
3136F9RQ8	$ 1,294	$ 1,561	$ 1,396	N
912810FD5	182	248	181	N
912828C99	51,317	50,110	51,181	N
912828WU0	48,937	48,154	48,847	N

Note 4. RESERVES AND FUNDS FOR PAYMENT OF ANNUITY BENEFITS

The Company's separate accounts are non-guaranteed. The withdrawal characteristics of the Company's annuity actuarial reserves and deposit-type contracts are illustrated below as of December 31:

2015	General Account	Separate Account	Total	% of Total
Subject to discretionary withdrawal-with adjustments:				
With fair value adjustment	$ —	$ —	$ —	—%
At book value less surrender charges	462,848	—	462,848	5%
At fair value	—	5,861,942	5,861,942	65%
Subtotal	462,848	5,861,942	6,324,790	70%
At book value — without adjustment	1,454,495	—	1,454,495	15%
Not subject to discretionary withdrawal	1,419,965	316,908	1,736,873	18%
Total annuity reserves and deposit liabilities gross	3,337,308	6,178,850	9,516,158	100%
Less: reinsurance ceded	(4,132)	—	(4,132)	
TOTAL ANNUITY RESERVES AND DEPOSIT LIABILITIES, NET	**$3,333,176**	**$6,178,850**	**$9,512,026**	

(In Thousands)

2014	General Account	Separate Account	Total	% of Total
Subject to discretionary withdrawal-with adjustments:				
With fair value adjustment	$ —	$ —	$ —	—%
At book value less surrender charges	523,283	—	523,283	6%
At fair value	—	5,754,931	5,754,931	64%
Subtotal	523,283	5,754,931	6,278,214	70%
At book value — without adjustment	1,416,062	—	1,416,062	16%
Not subject to discretionary withdrawal	984,916	317,429	1,302,345	14%
Total annuity reserves and deposit liabilities gross	2,924,261	6,072,360	8,996,621	100%
Less: reinsurance ceded	(4,039)	—	(4,039)	
TOTAL ANNUITY RESERVES AND DEPOSIT LIABILITIES, NET	**$2,920,222**	**$6,072,360**	**$8,992,582**	

The following summarizes total annuity actuarial reserves and liabilities for deposit-type contracts as of December 31:

	2015	2014
Statutory Statements of Admitted Assets, Liabilities and Surplus:		
Policyholders' reserves — group annuities	$ 261,356	$ 279,343
Policyholders' reserves — individual annuities	2,100,475	2,110,245
Liabilities for deposit-type contracts	947,337	502,500
VACARVM reserves	24,008	28,134
Subtotal	3,333,176	2,920,222
Separate Account Annual Statement:		
Annuities	6,178,717	6,072,208
Supplementary contracts with life contingencies	118	136
Other annuity contract-deposit-funds	15	16
Subtotal	6,178,850	6,072,360
TOTAL RESERVES	**$9,512,026**	**$8,992,582**

As of December 31, 2015 the Company has recorded reserves of $450,299 related to outstanding borrowings from the FHLB-PGH classified as funding agreements. There were no outstanding borrowings as of December 31, 2014.

The Company has variable annuity contracts containing GMDB provisions that provide a specified minimum return upon death as follows:

RETURN OF PREMIUM provides the greater of the account value or total deposits made to the contract less any partial withdrawals and assessments, which is referred to as "net purchase payments." This guarantee is a standard death benefit on all individual variable annuity products.

STEP-UP provides a variable death benefit equal to the greater of the account value and the highest variable account value adjusted for withdrawals and transfers from any prior contract anniversary date.

RISING FLOOR provides a variable death benefit equal to the greater of the current account value and the variable purchase payments accumulated at a set rate and adjusted for withdrawals and transfers.

(In Thousands)

The following table summarizes the account values and net amount at risk (death benefit in excess of account value), net of reinsurance for variable annuity contracts with guarantees invested in the separate account as of December 31:

	2015	2014
Account value	$6,131,714	$6,039,877
Net amount at risk	127,648	48,961

The Company has variable annuity contracts that have GMAB and GMAB/GMWB Rider options. The GMAB provides for a return of principal at the end of a ten-year period. The GMAB/GMWB combination rider allows for guaranteed withdrawals from a benefit base after a selected waiting period. The GMWB riders are also available with inflation or death benefit protection. The benefit base is calculated as the maximum of principal increase at a roll up rate less any partial withdrawals during the accumulation phase, the current account value, and the highest anniversary value over the first ten years. The withdrawal amount is stated as a percentage of the benefit base and varies based on whether the annuitant selects lifetime withdrawals or a specified period. One version of this rider has an inflation adjustment applied to the Guaranteed Withdrawal Amount.

The following table summarizes the account values for the different benefit types as of December 31, 2015:

Rider Type	Contracts	Fund Value	Cash Value
GMAB	1,641	$ 179,155	$ 170,432
GMWB w/inflation	12,630	1,991,421	1,935,732
GMAB/GMWB	16,104	2,647,553	2,564,041
GMWB w/ DB	934	140,841	133,117
Total	**31,309**	**$4,958,970**	**$4,803,322**

The following table summarizes the account values for the different benefit types as of December 31, 2014:

Rider Type	Contracts	Fund Value	Cash Value
GMAB	1,490	$ 168,684	$ 160,262
GMWB w/inflation	11,818	1,889,717	1,835,481
GMAB/GMWB	15,629	2,592,078	2,502,167
GMWB w/ DB	803	120,898	113,644
Total	**29,740**	**$4,771,377**	**$4,611,554**

Reserves for living and death benefits are based on the methodology specified in Actuarial Guideline XLIII (VACARVM), which specifies the final reserve as the greater of standard and stochastic scenarios floored at the basic adjusted reserve and cash value. The standard scenario is based on a single path, deterministic projection with stipulated assumptions. The stochastic scenario is based on the Conditional Tail Expectation ("CTE") 70% of 1000 stochastically generated interest rate scenarios. Prudent estimate assumptions including margins for uncertainty are used to calculate the stochastic amount. Key assumptions needed in valuing the liability include full withdrawals, partial withdrawals, mortality, the Consumer Price Index, investment management fees and revenue sharing, expenses, fund allocations and other policyholder behavior. In addition, a method for projecting interest rates and equity returns is required. The stochastic process also requires the projection of in-force general account assets, assets from reinvested cash flows and in-force hedge assets that support the liabilities. The key assumptions needed in valuing the assets include reinvestment asset mix, reinvestment credit spreads, default rates, implied volatility and swap interest rates. At December 31, 2015 and 2014, the standard scenario was the greater of the two measures and was used as the final reserve. The final reserve balance for policies that fall within the scope of Actuarial Guideline XLIII, which covers both Living and Death Benefit guarantees, is $5,985,327 and $5,885,362, as of December 31, 2015 and 2014, respectively. During 2015 and 2014, as a result of the annual assumption review, there was a release of reserves of $100 and $0, respectively.

(In Thousands)

Note 5. SEPARATE ACCOUNTS

Separate Accounts Registered with the SEC The Company maintains separate accounts, which are registered with the Securities Exchange Commission ("SEC"), for its individual variable life and annuity products with assets of $6,894,442 and $6,854,843 at December 31, 2015 and 2014, respectively. The assets for these separate accounts, which are carried at fair value, represent investments in shares of the Company's Penn Series Funds and other non-proprietary funds.

Separate Accounts Not Registered with the SEC The Company also maintains separate accounts, which are not registered with the SEC, with assets of $323,396 and $324,225 at December 31, 2015 and 2014, respectively. While the product itself is not registered with the SEC, the underlying assets are comprised of SEC registered mutual funds. The assets in these separate accounts are carried at fair value.

Information regarding the Separate accounts of the Company, all of which are nonguaranteed, is as follows:

	2015	2014
Premiums considerations and deposits	$ 493,263	$ 509,356
Reserves at December 31, at market value	7,039,100	6,986,569
Subject to discretionary withdrawal at market value	7,039,100	6,986,569

The following table reconciles the amounts transferred to and from the separate accounts as reported in the financial statements of the separate accounts to the amount reported in the Statements of Income for the year ended December 31:

	2015	2014
Transfers as reported in the financial statements of the separate accounts:		
Transfers to separate accounts	$493,263	$509,356
Transfers from separate accounts	382,347	358,141
Transfers as reported in the Statements of Income	$110,916	$151,215

The Company utilizes separate accounts to record and account for assets and liabilities for particular lines of business and transactions. For the current reporting year, the Company reported assets and liabilities from variable life and annuity product lines into a separate account.

The assets of the separate accounts, which are legally insulated from the general account, are comprised of the following product mix as of December 31:

Product Description	2015	2014
Enhanced Deferred Individual Annuity	$5,622,325	$5,489,239
Single Life Variable Universal Life	601,078	623,332
Basic Deferred Individual Annuity	402,107	438,453
Joint Life Variable Universal Life	268,932	303,819
Deferred Group Annuity	323,396	324,225
Total	$7,217,838	$7,179,068

Certain separate account liabilities are guaranteed by the general account.

As of December 31, 2015 and 2014, the general account of the Company had a maximum guarantee for separate account liabilities of $360,974 and $142,682, respectively. To compensate the general account for the risk taken, the separate account paid risk charges to the general account totaling $49,294 and $42,258 for the years ended December 31, 2015 and 2014, respectively and $149,273 for the four-year period between 2012 and 2015.

(In Thousands)

For the years ended December 31, 2015 and 2014, the general account of the Company has paid $681 and $443, respectively, towards separate account guarantees, and $4,912 cumulatively over the last five years.

Note 6. DERIVATIVES

The Company utilizes derivatives to achieve its risk management goals. Exposure to risk is monitored and analyzed as part of the Company's asset/liability management process, which focuses on risks that impact liquidity, capital, and income. The Company may enter into derivative transactions to hedge exposure to interest rate, credit, liability, currency, and cash flow risks. The Company uses forward contracts, swaps, futures, options, and caps to hedge these risks.

When entering into a derivative transaction, there are several risks, including but not limited to basis risk, credit risk, and market risk. Basis risk is the exposure to loss from imperfectly matched positions, and is monitored and minimized by modifying or terminating the transaction. Credit risk is the exposure to loss as a result of default or a decline in credit rating of a counterparty. Credit risk is addressed by establishing and monitoring guidelines on the amount of exposure to any particular counterparty. Market risk is the adverse effect that a change in interest rates, currency rates, implied volatility rates, or a change in certain equity indexes or instruments has on the value of a financial instrument. The Company manages the market risk by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Also, the Company requires that an International Swaps and Derivatives Association Master agreement govern all Over-the-Counter ("OTC") derivative contracts. In addition, as a result of Dodd Frank Title VII, interest rate swaps are now centrally cleared through an exchange.

The following table presents the notional values, fair values and carrying values of derivative instruments designated and qualifying as hedging instruments. Derivative instruments with carrying values showing a gain are reported in other invested assets. Derivative instruments with carrying values showing a loss are reported in other liabilities.

Derivative Instruments Designated and Qualifying as Hedging Instruments

December 31,	2015						2014					
		Notional	Fair Value		Carrying Value			Notional	Fair Value		Carrying Value	
	Number	Value	Gain	(Loss)	Gain	(Loss)	Number	Value	Gain	(Loss)	Gain	(Loss)
Cash flow hedges:												
Equity options	64	$1,579,347	$33,285	$ —	$50,011	$—	44	$ 950,163	$44,183	$ —	$30,140	$—
Currency swaps	3	17,266	1,323	—	1,056	—	7	39,086	3,054	(224)	1,731	—
Interest rate swaps	1	50,000	—	(849)	—	—	—	—	—	—	—	—
Fair value hedges:												
Interest rate swaps	2	45,000	—	(3,608)	—	—	1	25,000	—	(2,938)	—	—
Total designated and qualifying as hedges	**70**	**$1,691,613**	**$34,608**	**$(4,457)**	**$51,067**	**$—**	**52**	**$1,014,249**	**$47,237**	**$(3,162)**	**$31,871**	**$—**

The following table presents the notional and fair values of derivative financial instruments not designated and not qualifying as hedging instruments. Fair values showing a gain are reported in other invested assets. Fair values showing a loss are reported in other liabilities. For the derivative instruments shown below, fair values equal carrying values.

(In Thousands)

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

December 31,	2015				2014			
		Notional	Fair Value			Notional	Fair Value	
	Number	Value	Gain	(Loss)	Number	Value	Gain	(Loss)
Interest rate futures	1,100	$ 262,300	$ —	$ (1,837)	7,101	$1,255,727	$ 1,401	$ (2,279)
Credit default swaps	1	5,000	—	(604)	1	5,000	—	(591)
Equity futures	1,055	106,361	—	(1,192)	1,500	150,707	—	(5,705)
Foreign currency forwards	—	—	—	—	1	19,103	1,489	—
Interest rate swaps	34	3,465,600	3,973	(44,223)	13	1,139,400	1,876	(25,761)
Inflation swaps	2	125,000	—	(11,467)	2	125,000	—	(10,540)
Equity options	15	813,990	2,450	(3,395)	15	628,100	26,358	(1,692)
Total return swaps	14	569,497	2,112	(32,296)	4	270,472	—	(22,836)
Swaptions	2	170,000	—	(464)	5	695,000	—	(930)
Treasury forwards	1	20,000	—	(508)	—	—	—	—
Total not designated and not qualifying as hedges	**2,224**	**$5,537,748**	**$8,535**	**$(95,986)**	**8,642**	**$4,288,509**	**$31,124**	**$(70,334)**

The impact of derivative instruments reported on the Statements of Income for the years ended December 31, 2015 and 2014, segregated by derivatives designated and qualifying as hedging instruments and derivatives not designated and not qualifying as hedging instruments, is reported in the tables below:

Derivative Instruments Designated and Qualifying as Hedging Instruments

Years Ended December 31,	2015		2014	
	Net Investment Income/(Loss)	Net Investment Gains/(Losses)[1]	Net Investment Income/(Loss)	Net Investment Gains/(Losses)[1]
Cash flow hedges:				
Interest rate swaps	$ 583	$ —	$ —	$ —
Currency swaps	150	5,106	11	—
Fair value hedges:				
Interest rate swaps	(1,166)	5,479	(231)	—
Interest rate futures	—	—	—	197
Total qualifying hedges	**$ (433)**	**$10,585**	**$(220)**	**$197**

1 Net investment gains/ (losses) were transferred to the IMR.

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

YEARS ENDED DECEMBER 31,	2015		2014	
	Net Investment Income/(Loss)	Net Investment Gains/(Losses)[1]	Net Investment Income/(Loss)	Net Investment Gains/(Losses)[1]
Interest rate futures	$ —	$ 8,839	$ —	$ (8,985)
Interest rate caps	—	—	—	(4,380)
Credit default swaps	(254)	—	(274)	—
Equity futures	—	(10,430)	—	(23,293)
Foreign currency forwards	—	2,573	—	(149)
Interest rate swaps	10,066	17,588	10,979	28,334
Inflation swaps	(2,128)	—	(338)	—
Equity options	—	4,441	—	66,303
Total return swaps	1,947	(4,846)	1,148	(35,976)
Swaptions	—	2,126	—	3,581
Total nonqualifying hedges	**$ 9,631**	**$ 20,291**	**$11,515**	**$ 25,435**

1 $2,267 and $538, of the net investment gains/(losses) were transferred to the IMR for the years ended December 31, 2015 and 2014, respectively.

Derivative Instruments Designated and Qualifying as Hedging Instruments

The Company has entered into currency swaps that qualify for hedge accounting. These have been designated as cash flow hedges of cash flows related to foreign currency securities. These currency swaps are used to reduce market risks from changes in foreign exchange rates. The hedging instruments are held at amortized cost. For the currency swaps, the change in value related to foreign exchange fluctuations is recognized as an unrealized gain or loss, as applicable. The change in unrealized capital gains/(losses) for these currency swaps designated and qualifying as hedging instruments for the years ended December 31, 2015 and 2014 were $(674) and $3,494 respectively.

The company has entered into an interest rate swap that qualifies for hedge accounting. The swap has been designated as a cash flow hedge of cash flows related to the variability of interest rate payments associated with holdings of 3-month LIBOR variable rate fixed income securities. The hedging instrument is held at amortized cost. The effective portion of the hedge flows through the income statement. At termination, the gain or loss on the derivative is transferred to the IMR and amortized into income over the remaining life of the derivative.

Derivative instruments used in cash flow hedges that meet the criteria of a highly effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 16 years.

The Company has purchased equity options in the form of call spreads that qualify for hedge accounting. These have been designated as cash flow hedges of cash flows related to the annual return of the S&P 500 Index. These call spreads are used to hedge the increase in liability associated with indexed credits on IUL and VUL policies. As these are derivatives in a highly effective hedge, they are carried at cost in a manner consistent with the firm commitment being hedged. At termination, a realized gain amount, net of the cost basis, is recognized within benefits paid to policyholders and beneficiaries on the Statements of Income, consistent with the change in liability associated with the account value. In the event that the hedge fails to qualify as being highly effective at any of the accounting measurement points, the hedge will be considered ineffective and the derivative will be marked to market and the associated change will be recognized as unrealized gain/(loss). At the time of exercise or expiration of the derivative, the associated realized gain or loss will flow through net investment gain/(loss) on the income statement.

The company has entered into interest rate swaps that qualify for hedge accounting. The swaps have been designated as a fair value hedge of changes in the market value of three bonds in the corporate bond portfolio due to changes in interest rates. The effective portion of the hedges flows through the income statement. At termination, the change in the fair value of the derivatives flow through the income statement; the change in the fair value of the bonds will be used to adjust the book basis of the bonds and the remaining amount will be amortized over the remaining life of the bonds. The gain or loss of the derivatives at termination will be amortized through IMR over the remaining life of the hedged asset.

During the year ended December 31, 2015, the Company entered into and subsequently terminated fair value hedge accounting for an interest rate swap. When the derivative instrument was closed it resulted in a realized gain of $5,479 which was transferred to the IMR and will be amortized into income over the remaining duration of the hedged asset.

During the year ended December 31, 2014, the Company entered into fair value hedge accounting for two interest rate futures. Hedge accounting for one such hedge was subsequently terminated when the derivative instrument was closed and resulted in a realized gain of $197. Hedge accounting for the other such hedge was subsequently terminated when the derivative instrument was closed, which was proven to be ineffective, resulting in a realized gain of $59. The realized gains for both hedges were transferred to the IMR and are being amortized over the duration of the derivative instruments.

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

The Company enters into interest rate caps, interest rate and equity futures, credit default swaps, forward contracts, interest rate swaps, inflation swaps and equity options that do not qualify for hedge accounting.

(In Thousands)

These instruments are carried at fair value and are classified as either other invested assets or other liabilities in the Statements of Admitted Assets, Liabilities and Surplus. The Company's use of interest rate caps is designed to manage risk associated with rising interest rates. Credit default swaps protect the Company from a decline in credit quality of a specified security resulting in bankruptcy or the failure to pay. The Company may use "to be announced" forward contracts to gain exposure to the investment risk and return of mortgage-backed securities.

The Company uses interest rate swaps, interest rate futures and swaptions to reduce market risks from changes in interest rates; the Company uses inflation swaps as an economic hedge to reduce inflation risk associated with inflation-indexed liabilities.

Total return swaps and equity futures are used to hedge the company's liability risk exposure to declines in the equity markets.

Foreign currency forwards are used to hedge the risk embedded in the Company's investment in Euro-denominated alternative assets.

The Company offers IUL products which have embedded options with guaranteed returns. The Company uses equity options in the form of call spread options for protection from rising equity levels and rising volatility.

The change in unrealized capital gains/(losses) for derivative instruments not designated and not qualifying as hedging instruments are as follows for the years ended December 31:

	2015	2014
Interest rate futures	$ (960)	$ 2,338
Interest rate caps	—	4,380
Credit default swaps	(13)	227
Equity futures	4,513	(5,612)
Foreign currency forward	(1,489)	1,893
Interest rate swaps	(16,725)	41,970
Inflation swaps	(927)	(8,733)
Equity options	(13,479)	(33,024)
Total return swaps	(7,348)	10,348
Swaptions	(208)	785
Treasury forwards	(508)	—
Total	**$(37,144)**	**$ 14,572**

The Company offers a variety of variable annuity contracts with GMAB or GMWB (described further in Note 4). The contractholders may elect to invest in equity funds. Adverse changes in the equity markets expose the Company to losses if the changes result in contractholder's account balances falling below the guaranteed minimum. To mitigate the risk associated with these liabilities, the Company enters into equity futures. The changes in value of the futures will offset a portion of the changes in the annuity accounts relative to changes in the equity market.

CREDIT RISK

The Company is exposed to credit related losses in the event of non-performance by counterparties to derivative financial instruments. In order to minimize credit risk, the Company and its derivative counterparties require collateral to be posted in the amount owed under each transaction, subject to threshold and minimum transfer amounts that are functions of the counterparty's credit rating. As of December 31, 2015 and 2014, the Company was fully collateralized thereby eliminating the potential for an accounting loss. Additionally, the agreements with the counterparties allow for contracts in a positive position to be offset by contracts in a negative position. This right of offset also reduces the Company's exposure. As of December 31, 2015 and 2014, the Company pledged collateral of $128,318 and $6,731, respectively, in the form of securities and cash. The cash received from held collateral is invested in an interest bearing money market fund and is reflected as a short-term investment.

As of December 31, 2015 and 2014, the Company pledged collateral for futures contracts of $10,134 and $16,169, respectively, in the form of cash. Notional or contractual amounts of derivative financial instruments provide a measure of involvement in these types of transactions and do not represent the amounts exchanged between the parties engaged in the transaction. The amounts exchanged are determined by reference to the notional amounts and other terms of the derivative financial instruments.

Note 7. FAIR VALUE OF FINANCIAL INSTRUMENTS AND OFF-BALANCE-SHEET RISK

FAIR VALUE MEASUREMENT 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 measurement is based on assumptions market participants would make in pricing an asset or liability. Inputs to valuation techniques to measure fair value are prioritized by establishing a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to prices derived from unobservable inputs. An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its fair value measurement. The Company has categorized its assets and liabilities into the three-level fair value hierarchy based upon the priority of the inputs. The following summarizes the types of assets and liabilities included within the three-level hierarchy:

Level 1 Fair value is based on unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date. These generally provide the most reliable evidence and are used to measure fair value whenever available. Active markets are defined as having the following for the measured asset/liability: i) many transactions, ii) current prices, iii) price quotes not varying substantially among market makers, iv) narrow bid/ask spreads and v) most information publicly available. Prices are obtained from readily available sources for market transactions involving identical assets and liabilities.

Level 2 Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Prices for assets classified as Level 2 are primarily provided by an independent pricing service using observable inputs. In circumstances where prices from pricing services are reviewed for reasonability but cannot be corroborated to observable market data as noted above, these security values are recorded in Level 3 in the fair value hierarchy.

Level 3 Fair value is based on significant inputs that are unobservable for the asset or liability. These inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability. These are typically less liquid fixed maturity securities with very limited trading activity. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models, market approach and other similar techniques. Prices may be based upon non-binding quotes from brokers or other market makers that are reviewed for reasonableness, based on the Company's understanding of the market but are not further corroborated with other additional observable market information.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on the Company's results of operations. The following sections describe the valuation methodologies used to determine fair values as well as the key estimates and assumptions surrounding certain assets and liabilities, measured at fair value on a recurring basis, that could have a significant impact on the Company's results of operations or involve the use of significant unobservable inputs.

The fair value process is monitored by an internal Valuation Group which meets at least quarterly. The Valuation Group consists of financial and investment professionals and utilizes additional subject matter experts as applicable. The purpose of the Valuation Group is to monitor the Company's asset valuation policies and procedures by ensuring objective and reliable valuation practices and pricing of financial instruments, as well as addressing fair valuation issues, changes to valuation methodologies and pricing sources. To assess the continuing appropriateness of third party pricing service security valuations, the Valuation Group regularly monitors the prices and reviews price variance reports. In addition, the Company performs an initial and ongoing review of the third party pricing services methodologies, reviews inputs and assumptions used for a sample of securities on a periodic basis. Pricing challenges are raised on valuations considered not reflective of market and are monitored by the Valuation Group.

BONDS The fair values of the Company's debt securities are generally based on quoted market prices or prices obtained from independent pricing services. In order to validate reasonability, prices are reviewed by internal investment professionals through comparison with directly observed recent market trades or color or by comparison of significant inputs used by the pricing service to the Company's observations of those inputs in the market. Consistent with the fair value hierarchy described above, securities with quoted market prices or corroborated valuations from pricing services are generally reflected within Level 2. Inputs considered to be standard for valuations by the independent pricing service include: benchmark yields, reported trades, broker/ dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events. In circumstances where prices from pricing services are reviewed for reasonability but cannot be corroborated to observable market data as noted above, these security values are recorded in Level 3 in the Company's fair value hierarchy.

In circumstances where market data such as quoted market prices or vendor pricing is not available, internal estimates based on significant observable inputs are used to determine fair value. This category also includes fixed income securities priced internally. Inputs considered include: public debt, industrial comparables, underlying assets, credit ratings, yield curves, type of deal structure, collateral performance, loan characteristics and various indices, as applicable. Also included in Level 2 are private placement securities. Inputs considered are: public corporate bond spreads, industry sectors, average life, internal ratings, security structure, liquidity spreads, credit spreads and yield curves, as applicable. If the discounted cash flow model incorporates significant unobservable inputs, these securities would be reflected within Level 3 in the Company's fair value hierarchy.

In circumstances where significant observable inputs are not available, estimated fair value is calculated internally by using unobservable inputs. These inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset, and are therefore included in Level 3 in the Company's fair value hierarchy. Circumstances where observable market data is not available may include events such as market illiquidity and credit events related to the security.

The Company's Level 3 debt securities generally include certain privately placed commercial mortgage backed, asset backed trust preferred, public debt and certain private debt securities priced internally based on observable and unobservable inputs. Under certain conditions, the Company may conclude pricing information received from third party pricing services is not reflective of market activity and may over-ride that information with an internally developed valuation that utilizes market information and activity. As of December 31, 2015 and 2014, there were no debt securities carried at fair value that were valued in this manner.

Significant inputs used in valuing the Company's Level 3 debt securities include: issue specific credit adjustments, illiquidity premiums, estimation of future collateral performance cash flows, default rate assumptions, acquisition cost, market activity for securities considered comparable and non-binding quotes from certain market participants. Certain of these inputs are considered unobservable, as not all market participants will have access to this data.

The methodologies followed for valuing the Company's significant Level 3 debt securities include:

- Commercial mortgage, residential mortgage and asset backed securities — These assets are valued based upon broker quotes which are updated regularly. The quoted valuation is based upon a discounted cash flow model and the assumptions underlying the model include swap curve rates, prepayment and default assumptions and an illiquidity premium. On a periodic basis, management reviews the underlying assumptions with the quoting broker and reviews the final quotes for reasonableness.
- Asset backed trust preferred securities — The process used to value these assets consists of determining the current market price and credit spread of the underlying floating rate security that will be received at maturity of the trust. That value is then discounted based upon a rate consisting of the applicable swap yield to maturity, the discount margin and an illiquidity premium established by management.

EQUITY SECURITIES Equity securities consist principally of investments in common and preferred stock of publicly traded companies, exchange traded funds, closed-end funds, and FHLB-PGH capital stock. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the Company's fair value hierarchy. The fair values of non-exchange traded preferred equity securities are based on prices obtained from independent pricing services and, in order to validate reasonability, are compared with recent market trades we have directly observed. Accordingly, these securities are classified within Level 2 in the Company's fair value hierarchy. Fair value for the FHLB capital stock approximates par value and is classified within Level 3 of the Company's fair value hierarchy.

CASH AND SHORT-TERM INVESTMENTS Short-term investments carried at Level 1 consist of money market funds and investments purchased with maturities of greater than three months and less than or equal to 12 months. These are carried at amortized cost and approximate fair value.

DERIVATIVE INSTRUMENTS Derivatives instruments not qualifying as an effective hedge with a positive fair value are recorded as other invested assets. Derivatives instruments not qualifying as an effective hedge with negative fair values are reported as other liabilities. The fair values of derivative contracts are determined based on quoted prices in active exchanges or prices provided by counterparties, exchanges or clearing members as applicable, utilizing valuation models. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns and liquidity as well as other factors. In order to validate reasonability, prices are reviewed by our internal investment professionals through comparison with directly observed recent market trades, comparison with internal valuations estimated through use of valuation models maintained on an industry standard analytical and valuation platform, or comparison of all significant inputs used by the pricing service to our observations of those inputs in the market. Fair values can also be affected by changes in estimates and assumptions including those related to counterparty behavior used in valuation models.

The Company's exchange traded futures include index futures that are valued using quoted prices in active markets and are classified within Level 1 in our fair value hierarchy. Derivative positions traded in the over-the-counter ("OTC") derivative market are classified within Level 2. These investments include: interest rate swaps, interest rate caps, total return swaps, swaptions, equity options, inflation swaps, forward contracts, and credit default swaps. OTC derivatives classified within Level 2 are valued using models generally accepted in the financial services industry that use actively quoted or observable market input values from external market data providers, broker-dealer quotations, third-party pricing vendors and/or recent trading activity. Refer to Note 6 for additional disclosures regarding derivatives.

SEPARATE ACCOUNT ASSETS Separate account assets primarily consist of mutual funds. The fair value of mutual funds is based upon quoted prices in an active market, resulting in classification within Level 1 of the Company's fair value hierarchy.

(In Thousands)

The following table presents the financial instruments carried at fair value by caption on the Statements of Admitted Assets, Liabilities and Surplus and by valuation hierarchy (as described above).

December 31, 2015	FV Level 1	FV Level 2	FV Level 3	Total
Assets:				
Bonds:				
Corporate securities	$ —	$ 4,759	$ —	$ 4,759
Commercial MBS	—	—	8,000	8,000
Asset-backed securities	—	—	1,579	1,579
Total Bonds	—	4,759	9,579	14,338
Common stock — unaffiliated	75,523	—	20,484	96,007
Derivatives				
Interest rate swaps	—	3,973	—	3,973
Equity options	—	2,450	—	2,450
Total return swaps	—	2,112	—	2,112
Total derivatives	—	8,535	—	8,535
Total investments	75,523	13,294	30,063	118,880
Separate account assets (1)	7,217,838	—	—	7,217,838
Total assets	$7,293,361	$ 13,294	$30,063	$7,336,718
Liabilities:				
Derivatives	$ (3,030)	$(92,956)	$ —	$ (95,986)
Total Liabilities	$ (3,030)	$(92,956)	$ —	$ (95,986)

(1) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Statements of Admitted Assets, Liabilities and Surplus.

(In Thousands)

The following table presents the financial instruments carried at fair value by caption on the Statements of Admitted Assets, Liabilities and Surplus and by valuation hierarchy (as described above).

December 31, 2014	FV Level 1	FV Level 2	FV Level 3	Total
Assets:				
Bonds:				
Corporate securities	$ —	$ 285	$ —	$ 285
Commercial MBS	—	3,311	—	3,311
Asset-backed securities	—	9,591	1,640	11,231
Total Bonds	—	13,187	1,640	14,827
Redeemable preferred stock	—	800	—	800
Common stock — unaffiliated	66,604	—	2,592	69,196
Derivatives				
Interest rate swaps	—	1,876	—	1,876
Interest rate futures	1,401	—	—	1,401
Equity options	—	26,358	—	26,358
Foreign Currency Forwards	—	1,489	—	1,489
Total derivatives	1,401	29,723	—	31,124
Total investments	68,005	43,710	4,232	115,947
Separate account assets(1)	7,179,068	—	—	7,179,068
Total assets	$7,247,073	$ 43,710	$4,232	$7,295,015
Liabilities:				
Derivatives	$ (7,984)	$(62,350)	$ —	$ (70,334)
Total liabilities	$ (7,984)	$(62,350)	$ —	$ (70,334)

SIGNIFICANT TRANSFERS BETWEEN LEVEL 1 AND LEVEL2 There were no significant transfers between Level 1 and Level 2.

CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS When a determination is made to classify a financial instrument within Level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

The Company recognizes transfers into Level 3 as of the end of the period in which the circumstances leading to the transfer occurred. The Company recognizes transfers out of Level 3 at the beginning of a period in which the circumstances leading to the transfer occurred.

There were no assets transferred out of Level 3 during 2015. There was one asset that had an NAIC designation downgrade in 2015, requiring that it be carried at the lower of amortized cost or fair value. This has been classified as Level 3. There were no assets transferred in or out of level 3 for the year ended December 31, 2014.

(In Thousands)

The tables below include a rollforward of the Statements of Admitted Assets, Liabilities and Surplus amounts for the years ended December 31, 2015 and 2014 (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

	Asset-Backed Securities	Common Stock	Commercial MBS	Total Assets
Balance January 1, 2015	$1,640	$ 2,592	$ —	$ 4,232
Transfers in	—	—	8,000	8,000
Transfers out	—	—	—	—
Total gains or losses (realized/ unrealized) included in:				
Income/(loss)	17	—	—	17
Surplus	5	—	—	5
Amortization/Accretion	—	—	—	—
Purchases/(Sales):				
Purchases	—	18,000	—	18,000
(Sales)	(83)	(108)	—	(191)
Balance December 31, 2015	**$1,579**	**$20,484**	**$8,000**	**$30,063**

	Asset-Backed Securities	Common Stock	Total Assets
Balance January 1, 2014	$1,743	$ 971	$ 2,714
Transfers in	—	—	—
Transfers out	—	—	—
Total gains or losses (realized/unrealized) included in:			
Income/(loss)	4	—	4
Surplus	4	—	4
Amortization/Accretion	—	—	—
Purchases/(Sales):			
Purchases	—	9,672	9,672
(Sales)	(111)	(8,051)	(8,162)
Balance December 31, 2014	**$1,640**	**$ 2,592**	**$ 4,232**

The following summarizes the fair value, valuation techniques and significant unobservable inputs of the Level 3 fair value measurements that were developed as of December 31, 2015:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Rate/Range or/ weighted avg.
Assets:				
Investments				
Bonds				
Asset-backed securities	$ 1,579	Broker quote(1)	*Not available*	*N/A*
Commercial MBS	8,000	Property, appraised and credit support	*Not available*	*N/A*
Common stock	971	Enterprise valuation multiple(2)	*Enterprise valuation multiple*	*6.0 multiple*
	19,513	Set by issuer — FHLB-PGH(3)	*Not available*	*N/A*
Total investments	$30,063			

(1) Broker quoted fair values on these asset backed securities represent indicative, non-binding quotes developed by a single market maker. The significant inputs are not developed by the Company and are not reasonably available.

(In Thousands)

(2) The Company estimates the fair value using a model which applies an enterprise valuation multiplier to estimated earnings before income taxes, depreciation, and amortization.
(3) The par value of capital stock is $100. The capital stock is issued, redeemed and repurchased at par.

The following tables summarizes the aggregate fair value for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall, for which it is practicable to estimate fair value, at December 31:

2015	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3
Financial Assets:					
Bonds	$8,426,266	$8,134,957	$ 73,900	$7,589,325	$ 763,041
Redeemable preferred stock	76,998	72,595	44,056	30,980	1,962
Common stock-unaffiliated	96,007	96,007	75,523	—	20,484
Cash and short-term investments	245,071	245,071	245,071	—	—
Derivatives	43,143	59,602	—	43,143	—
Separate Account assets	7,217,838	7,217,838	7,217,838	—	—
Financial Liabilities:					
Investment-Type Contracts					
Individual annuities	$2,394,501	$2,352,887	$ —	$ —	$2,394,501
Derivatives	95,986	95,986	92,956	3,030	—
Separate Account liabilities	7,217,838	7,217,838	7,217,838	—	—

2014	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3
Financial Assets:					
Bonds	$8,302,414	$7,528,488	$ 18,174	$7,681,891	$ 602,349
Redeemable preferred stock	76,033	72,905	44,875	29,976	1,182
Common stock-unaffiliated	69,196	69,196	66,604	—	2,592
Cash and short-term investments	128,700	128,700	128,700	—	—
Derivatives	78,361	62,995	1,401	76,960	—
Separate Account assets	7,179,068	7,179,068	7,179,068	—	—
Financial Liabilities:					
Investment-Type Contracts					
Individual annuities	$2,421,249	$2,367,290	$ —	$ —	$2,421,249
Derivatives	73,496	70,334	7,984	65,512	—
Separate Account liabilities	7,179,068	7,179,068	7,179,068	—	—

Note 8. BENEFIT PLANS

The Company maintains both funded and unfunded non-contributory defined benefit pension plans covering all eligible employees. The Company also has other postretirement benefit plans (health care plans) covering eligible existing retirees and limited other eligible employees. The Company uses a measurement date of December 31 for all plans.

PENSION PLANS The Company has both funded and unfunded non-contributory defined benefit pension plans covering all eligible employees. The Company's policy is to fund qualified pension costs in accordance with the Employee Retirement Income Security Act of 1974. The Company may increase its contribution above the minimum based upon an evaluation of the Company's tax and cash positions and the plan's funded status.

(In Thousands)

The Company approved the freezing of benefits under its qualified and Tax Equity and Fiscal Responsibility Act ("TEFRA") pension plans effective December 31, 2005. Therefore, there no further benefits are accrued for participants.

OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS The Company provides certain life insurance and health care benefits ("other postretirement benefits") for its retired employees and agents, and their beneficiaries and covered dependents.

OTHER PLANS The Company has non-qualified deferred compensation plans that permit eligible key employees, producers and trustees to defer portions of their compensation to these plans. Certain Company contributions in excess of allowable qualified plan limits may also be credited to these plans. Company contributions are recorded as expenses and earnings/(losses) on investments are recorded to interest credited to policyholder funds in the Statements of Income. To hedge against volatility for the investment earnings credited, the Company has purchased corporate-owned life insurance contracts.

BENEFIT OBLIGATIONS Accumulated benefit obligations represent the present value of pension benefits earned as of the measurement date based on service and compensation and do not take into consideration future salary increases. Projected benefit obligations for defined benefit plans represent the present value of pension benefits earned as of the measurement date projected for estimated salary increases to an assumed date with respect to retirement, termination, disability or death.

The following table sets forth the plans' change in projected benefit obligation of the defined benefit pension and other postretirement plans as of December 31:

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	$181,602	$159,925	$24,827	$25,822
Service cost	—	—	416	382
Interest cost	7,273	7,573	850	1,012
Actuarial loss/(gain)	(7,600)	22,946	(2,580)	(492)
Benefits paid	(9,084)	(8,843)	(1,490)	(1,897)
Change in plan provisions	—	—		—
Projected benefit obligation at end of year	**$172,191**	**$181,601**	**$22,023**	**$24,827**

The weighted-average assumptions used to measure the actuarial present value of the projected benefit obligation were as follows at December 31:

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Discount rate	4.50%	4.10%	4.20%	3.80%
Rate of compensation increase	N/A	N/A	N/A	N/A

(In Thousands)

The assumed health care cost trend rates used in determining the benefit obligation were as follows as of December 31:

	2015		2014	
	Pre-65	**Post-65**	**Pre-65**	**Post-65**
Health care cost trend rate assumed for next year	7.25%	7.75%	7.45%	6.75%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2025	2025	2022	2022

The discount rate is determined at the annual measurement date of the plans and is therefore subject to change each year. The rate reflects prevailing market rates for high quality fixed-income debt instruments with maturities corresponding to expected duration of the benefit obligations on the measurement date. The rate is used to discount the future cash flows of benefits obligations back to the measurement date.

As of December 31, 2014, the Company changed its mortality assumptions for all plans to reflect the RP-2014 fully generational mortality tables, with modification for projected mortality improvements, in connection with the final updated RP-2014 mortality tables released by the Society of Actuaries in 2014.

PLAN ASSETS The change in plan assets represents a reconciliation of beginning and ending balances of the fair value of the plan assets used to fund future benefit payments. The following table sets forth the change in plan assets as of December 31:

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Change in plan assets:				
Fair value of plans assets at beginning of year	$179,097	$175,673	$ —	$ —
Actual return on plan assets	2,277	9,609	—	—
Employer contribution	2,569	2,658	1,490	1,897
Benefits paid	(9,084)	(8,843)	(1,490)	(1,897)
Fair value of plan assets at end of year	**$174,859**	**$179,097**	**$ —**	**$ —**

The plan assets consist primarily of mutual funds. The fair value of those funds is based upon quoted prices in an active market, resulting in a classification of Level 1.

The following table presents the financial instruments carried at fair value in Company's pension plan asset as of December 31, 2015:

Asset Category	**FV Level 1**	**FV Level 2**	**FV Level 3**	**Total**
Equity funds	$ 84,442	$—	$—	$ 84,442
Bond funds	66,215	—	—	66,215
Money market funds	24,202	—	—	24,202
Total	**$174,859**	**$—**	**$—**	**$174,859**

(In Thousands)

The following table presents the financial instruments carried at fair value in Company's pension plan assets as of December 31, 2014:

Asset Category	FV Level 1	FV Level 2	FV Level 3	Total
Equity funds	$ 90,395	$—	$—	$ 90,395
Bond funds	80,684	—	—	80,684
Money market funds	8,018	—	—	8,018
Total	**$179,097**	**$—**	**$—**	**$179,097**

The Company's overall investment strategy with respect to pension assets are growth, preservation of principal, preservation of purchasing power and partial immunization through asset/liability matching while maintaining return objective over the long term. To achieve these objectives, the Company has established a strategic asset allocation policy. Plan assets are diversified both by asset class and within each asset class in order to provide reasonable assurance that no single security or class of security will have a disproportionate impact on the plan. The target allocation for 2014 was 50%/50% between equity and bond funds. The target allocation for 2015 was a 40%-60%/ 40%-60% allocation between equity and bond funds The Company will continue its policy to rebalance the portfolio on an annual basis. Performance of investment managers, liability measurement and investment objectives are reviewed on a regular basis.

The Company's pension plan asset allocation at December 31, 2015 and 2014, and target allocations are as follows:

Asset Category	2016 Target Allocation	Percentage of Plan Assets As of December 31, 2015	2014
Equity funds	40.0% – 60.0%	48.3%	50.5%
Bond funds	40.0% – 60.0%	37.9%	45.0%
Money market funds	0%	13.8%	4.5%
Total	**100.0%**	**100.0%**	**100.0%**

The expected rate of return on plan assets was estimated utilizing a variety of factors including the historical investment returns achieved over a long-term period, the targeted allocation of plan assets and expectations concerning future returns in the marketplace for both equity and debt securities. Lower returns on plan assets result in higher net periodic benefit cost.

AMOUNTS RECOGNIZED IN THE STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS The funded status of the defined benefit plans is a comparison of the projected benefit obligations to the assets related to the respective plan, if any. The difference between the two represents amounts that have been appropriately recognized as expenses in prior periods that appear as the net amount recognized or represent amounts that will be recognized as expenses in the future through the amortization of the unrecognized net actuarial loss, unrecognized prior service costs, and remaining initial transition.

The following table sets forth the funded status of the plans as of December 31, 2015 and 2014 as of the measurement date.

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Benefit obligation	$(172,191)	$(181,601)	$(22,023)	$(24,827)
Fair value of plan assets	174,859	179,097	—	—
Funded Status	**$ 2,668**	**$ (2,504)**	**$(22,023)**	**$(24,827)**

(In Thousands)

The funded status reconciles to amounts reported in the Statement of Admitted Assets, Liabilities, and Surplus as follows as of December 31:

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Prepaid pension asset (nonadmitted)	$ 30,593	$ 27,993	$ —	$ —
Accrued benefit cost and liability for benefits recognized (other liabilities)	(27,925)	(30,497)	(21,925)	(21,201)
	2,668	(2,504)	(21,925)	(21,201)
Unrecognized transition liability	—	—	(98)	(3,626)
Funded Status	**$ 2,668**	**$ (2,504)**	**$(22,023)**	**$(24,827)**

The breakout of the fair value of plan assets, projected benefit obligation and accumulated benefit obligation for plans in an overfunded status, where the fair value exceeded the projected benefit obligation, and plans in an underfunded status, where the projected benefit obligation exceeded the fair value of plan assets were as follows as of December 31:

	Overfunded Pension Plans		Underfunded Pension Plans	
	2015	2014	2015	2014
Projected benefit obligation	$(144,266)	$(151,104)	$(27,925)	$(30,497)
Fair value of plan assets	174,859	179,097	—	—
Funded Status	**$ 30,593**	**$ 27,993**	**$(27,925)**	**$(30,497)**
Accumulated benefit obligation	$(144,266)	$(151,104)	$(27,925)	$(30,497)

SURPLUS ITEMS NOT YET RECOGNIZED The amounts in surplus that have not yet been recognized as part of net periodic benefit cost/(credit) were as follows as of December 31:

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Unrecognized prior service cost	$ —	$ —	$1,755	$1,754
Unrecognized actuarial loss	31,778	29,896	794	3,374
Total	**$31,778**	**$29,896**	**$2,549**	**$5,128**

The following represents activity relating to amounts recognized in surplus or included in the remaining unrecognized transition liability from the adoption of SSAP No. 92 during the year ended December 31, 2015 and 2014, including reclassification adjustments for those amounts recognized as components of net periodic benefit cost/(credit), for the years ended December 31:

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Items not yet recognized as a component of net periodic benefit cost/(credit) — prior year	$29,896	$ 5,369	$ 5,128	$5,619
Net prior service cost arising during the period	—	—	—	—
Net prior service (cost)/credit recognized to net periodic benefit cost/(credit)	—	(15)	1	1
Net actuarial loss/(gain) arising during the period	2,426	25,421	(2,580)	(492)
Net actuarial (loss) recognized to net periodic benefit cost/(credit)	(544)	(879)	—	—
Items not yet recognized as a component of net periodic benefit cost — current year	**$31,778**	**$29,896**	**$ 2,549**	**$5,128**

(In Thousands)

Amounts in surplus expected to be recognized as components of net periodic benefit cost/(credit) in 2016 are as follows:

	Pension Benefits	Other Benefits
Amortization of net prior service credit	$629	$ (1)
Amortization of actuarial net loss	—	—

NET PERIODIC BENEFIT COST/(CREDIT) The components of net periodic benefit cost/(credit) were as follows for the years ended December 31:

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Service cost	$ —	$ —	$ 416	$ 382
Interest cost	7,273	7,573	850	1,012
Expected return on plan assets	(12,302)	(12,084)	—	—
Amortization of prior service cost/(credit)	—	15	(1)	(1)
Amortization of actuarial losses/(gains)	544	879	—	—
Total net periodic benefit (credit)/cost	**$ (4,485)**	**$ (3,617)**	**$1,265**	**$1,393**

The weighted-average assumptions used to determine net periodic benefit cost/(credit) were as follows for the years ended December 31:

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Discount rate	4.10%	4.85%	3.80%	4.50%
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A

The assumed health care cost trend rates used in determining net periodic benefit cost were as follows for the years ended December 31:

	2015		2014	
	Pre-65	**Post-65**	**Pre-65**	**Post-65**
Health care cost trend rate assumed for next year	7.45%	6.75%	7.75%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2022	2022	2022	2022

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point	
	Increase	**Decrease**
Impact on total service and interest cost components	$ 88	$ (76)
Impact of postretirement benefit obligation	1,287	(1,144)

(In Thousands)

ACTUAL CONTRIBUTIONS AND BENEFITS The contributions made and the benefits paid from the plans at December 31 were:

	Pension Benefits		Other Benefits	
	2015	**2014**	**2015**	**2014**
Employer Contributions	$ 2,569	$ 2,658	$ 1,490	$ 1,897
Benefits Paid	(9,084)	(8,843)	(1,490)	(1,897)

CASH FLOWS The Company's funding policy is to contribute an amount at least equal to the minimum required contribution under ERISA. The Company may increase its contribution above the minimum based upon an evaluation of the Company's tax and cash positions and the plan's funded status.

In 2016, the Company expects to make the minimum required contribution to the funded pension plan, currently estimated to be $0. The Company expects to contribute to the unfunded pension and postretirement plans in amounts equal to the expected benefit costs of approximately $2,699 and $1,751, respectively.

The estimated future benefit payments are based on the same assumptions as used to measure the benefit obligations as of December 31, 2015 and 2014. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Plan Benefits	**Other Post Retirement Plan Benefits**
2016	$ 9,769	$ 1,751
2017	10,086	1,764
2018	10,404	1,752
2019	10,650	1,728
2020	10,764	1,698
Years 2021-2025	54,789	8,026
Total	**$106,462**	**$16,719**

DEFINED CONTRIBUTION PLANS The Company maintains four defined contribution pension plans for substantially all of its employees and full-time agents. For two plans, designated contributions of up to 6% or 8% of annual compensation are eligible to be matched by the Company. Contributions for the third plan are based on tiered earnings of full-time agents. The last plan, which covers employees of a subsidiary, is determined on a discretionary basis by the Board of Managers of that subsidiary. For the years ended December 31, 2015, and 2014, the expense recognized for these plans was $4,610 and $6,252, respectively.

At December 31, 2015 and 2014, $142,049 and $138,333, respectively, of the defined contribution plans' assets were invested in the Company's group annuity contracts.

Note 9. FEDERAL INCOME TAXES

The Company follows Statement of Statutory Accounting Principles No. 101 – *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10* ("SSAP 101"). SSAP 101 includes a calculation for the limitation of gross deferred tax assets for insurers that maintain a minimum of 300% of their authorized control level RBC computed without net deferred tax assets. The Company exceeded the 300% minimum RBC requirement at December 31, 2015 and 2014.

The Company is required to evaluate the recoverability of deferred tax assets and to establish a valuation allowance if necessary to reduce the deferred tax asset to an amount which is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable income exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized; (6) unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused; although the realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized. The Company has not recorded a valuation allowance as of December 31, 2015 and 2014.

(In Thousands)

The components of deferred tax asset (DTAs) and deferred tax liabilities (DTLs) recognized by the Company are as follows as of December 31:

Description		**2015**			**2014**	
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Gross deferred tax assets	$ 440,023	$ 60,478	$ 500,501	$394,103	$ 33,710	$ 427,813
Statutory valuation allowance adjustment	—	—	—	—	—	—
Adjusted gross deferred tax assets	440,023	60,478	500,501	394,103	33,710	427,813
Adjusted gross deferred tax assets nonadmitted	(118,039)	—	(118,039)	(94,522)	—	(94,522)
Subtotal — admitted adjusted deferred tax asset	321,984	60,478	382,462	299,581	33,710	333,291
Gross deferred tax liabilities	(93,950)	(57,833)	(151,783)	(70,315)	(32,825)	(103,140)
Net admitted deferred tax asset	**$ 228,034**	**$ 2,645**	**$ 230,679**	**$229,266**	**$ 885**	**$ 230,151**

Description		**Changes during 2015**	
	Ordinary	**Capital**	**Total**
Gross deferred tax assets/(liabilities)	$ 45,920	$ 26,768	$ 72,688
Statutory valuation allowance adjustment	—	—	—
Adjusted gross deferred tax assets	45,920	26,768	72,688
Adjusted gross deferred tax asset nonadmitted	(23,517)	—	(23,517)
Subtotal — admitted adjusted deferred tax asset	22,403	26,768	49,171
Gross deferred tax (liability)/asset	(23,635)	(25,008)	(48,643)
Net admitted deferred tax asset	$ (1,232)	$ 1,760	$ 528

(In Thousands)

Admitted DTA's are comprised of the following admission components based on paragraph 11 of SSAP No. 101 as of December 31:

Description	**2015**			**2014**		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Federal income taxes paid in prior years recoverable through loss carrybacks	$ —	$ —	$ —	$ —	$ —	$ —
Adjusted gross DTA expected to be realized (excluding the amount of DTA from above) after application of the threshold limitation (the lesser of 1 and 2 below)	198,868	31,811	230,679	196,542	33,609	230,151
1. Adjusted gross DTA expected to be realized following the balance sheet date	233,811	31,811	265,622	196,542	33,609	230,151
2. Adjusted gross DTA allowed per limitation threshold			230,679	—	—	232,766
Adjusted gross DTA (excluding the amount of DTA from above) offset by gross DTL	123,116	28,667	151,783	103,039	101	103,140
DTA admitted as the result of application of SSAP No.101	**$321,984**	**$60,478**	**$382,462**	**$299,581**	**$33,710**	**$333,291**

Description	**Changes during 2015**		
	Ordinary	**Capital**	**Total**
Federal income taxes paid in prior years recoverable through loss carrybacks	$ —	$ —	$ —
Adjusted gross DTA expected to be realized (excluding the amount of DTA from above) after application of the threshold limitation (the lesser of 1 and 2 below))	2,326	(1,798)	528
1. Adjusted gross DTA expected to be realized following the balance sheet date	37,269	(1,798)	35,471
2. Adjusted gross DTA allowed per limitation threshold			
Adjusted gross DTA (excluding the amount of DTA from above) offset by gross DTL	20,077	28,566	48,643
DTA admitted as the result of application of SSAP No. 101	**$22,403**	**$26,768**	**$49,171**

The authorized control level RBC and total adjusted capital computed without net deferred tax assets utilized when determining the amount of admissible net deferred tax assets was as follows:

December 31	**2015**	**2014**
Ratio percentage used to determine recovery period and threshold limitation amount	539%	573%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	$1,684,071	$1,684,153

(In Thousands)

The impact of tax planning strategies on the determination of adjusted gross DTA's and net admitted DTA's is as follows:

December 31	2015			2014			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Adjusted gross DTA's									
Percentage of adjusted gross deferred tax assets attributable to the impact of tax planning strategies	67%	96%	71%	100%	97%	100%	(33)%	(1)%	(29)%
Net admitted DTA's									
Percentage for net admitted adjusted gross deferred tax assets admitted because of the impact of tax planning strategies	81%	100%	83%	100%	100%	100%	(19)%	—%	(17)%

The Company's tax planning strategies do not include the use of reinsurance. There are no temporary differences for which a DTL has not been established.

Significant components of income taxes incurred

Current income taxes incurred consist of the following major components for the years ended December 31:

Description	2015	2014
Current federal income tax expense/(benefit)	$(33,190)	$36,037
Receivable adjustment per IRS audit	(2,023)	—
Federal income tax (benefit)/expense	(35,213)	36,037
Income tax effect on realized capital gains/(losses)	26,710	30,405
Federal and foreign income taxes incurred	**$ (8,503)**	**$66,442**

(In Thousands)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows as of December 31:

	2015	2014	Change
DTA resulting in book/tax difference in:			
Ordinary:			
Future policy benefits	$ 45,412	$ 46,540	$ (1,128)
DAC	101,039	95,503	5,536
Dividend to policyholders	16,800	14,420	2,380
Deferred compensation	35,228	33,821	1,407
Nonadmitted assets	18,224	17,944	280
LIHTC credits	33,872	25,216	8,656
NOL Carryforward	95,753	78,512	17,241
Other- ordinary	15,272	11,004	4,268
Reinsurance transaction	7,280	—	7,280
Coinsurance transaction	10,571	10,571	—
PML Reserve Financing	60,572	60,572	—
Subtotal — Gross ordinary DTAs	440,023	394,103	45,920
Statutory valuation allowance adjustment — ordinary		—	
Nonadmitted ordinary DTAs	(118,039)	(94,522)	(23,517)
Admitted ordinary DTAs	321,984	299,581	22,403
Capital:			
Investments	4,594	1,162	3,432
Net unrealized capital losses	23,816	—	23,816
OTTI on investments	32,068	32,548	(480)
Gross capital DTAs	60,478	33,710	26,768
Statutory valuation allowance adjustment — capital	—	—	—
Nonadmitted capital DTAs	—	—	—
Admitted capital DTAs	60,478	33,710	26,768
Admitted DTAs	382,462	333,291	49,171
DTLs resulting in book/tax differences in:			
Ordinary:			
Investments — ordinary	(82,684)	(60,000)	(22,684)
Other	(11,266)	(10,315)	(951)
Ordinary DTLs	(93,950)	(70,315)	(23,635)
Capital:			
Investments — capital	(26,547)	—	(26,547)
Alternative asset investments	(31,286)	(27,791)	(3,495)
Net unrealized capital gains	—	(5,034)	5,034
Capital DTLs	(57,833)	(32,825)	(25,008)
DTLs	(151,783)	(103,140)	(48,643)
Net deferred tax asset	**$ 230,679**	**$ 230,151**	**$ 528**

(In Thousands)

The change in deferred income taxes, exclusive of the effect of nonadmitted assets, as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in the Statements of Changes in Surplus, is comprised of the following:

	2015	2014	Change
Total deferred tax assets	$ 500,501	$ 427,813	$ 72,338
Total deferred tax liabilities	(151,783)	(103,140)	(48,643)
Net deferred tax asset	348,718	324,673	23,695
Statutory valuation allowance adjustment ("SVA")	—	—	—
Net deferred tax asset/(liability) after SVA	348,718	324,673	24,045
Tax effect of net unrealized gains/(losses)			(28,850)
Tax effect of postretirement liability			(992)
Change in net deferred income tax			$ (5,797)

Reconciliation of Federal Income Tax Rate to Actual Effective Rate

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing the differences as of December 31, 2015 are as follows:

Description	Amount	Tax Effect	Effective Tax Rate
Income before taxes	$102,447	$ 35,856	35.0%
Separate account dividend received deduction	(29,418)	(10,295)	(10.0)%
Dividends received deduction	(1,182)	(414)	(0.4)%
Meals and entertainment	351	123	0.1%
Executive benefits	4,612	1,614	1.6%
IMR tax adjustment	1,728	605	0.6%
Income from affiliates	(60,702)	(21,246)	(20.7)%
LIHTC		(8,652)	(8.4)%
Other	(849)	(297)	(0.4)%
Total		**$ (2,706)**	**(2.6)%**
Federal income taxes incurred		$ (8,503)	(8.3)%
Change in net deferred income tax		5,797	5.7%
Total Statutory Taxes		**$ (2,706)**	**(2.6)%**

The effective tax rate is primarily driven by the following components: (1) the reversal of income from affiliates, the tax on which is recorded in their separate company financial statements, (2) the separate account dividends received deduction, and (3) low income housing tax credits.

In 2015, two Form 3115 "Application for Change in Accounting Methods" were filed with the IRS for the tax treatment of Indexed Universal Life and Variable Annuity hedging methodologies. Management believes they have made adequate provisions for these adjustments.

At December 31, 2015, the Company had $273,580 of net operating loss carryforwards available that will begin to expire in 2026. In addition, the Company had LIHTC available of $33,872 that will expire starting in 2030.

At December 31, 2015, the Company had no Alternative Minimum Tax ("AMT") credit carryforwards.

There was no income tax expense for 2015, 2014 and 2013 that is available for recoupment in the event of future net losses.

(In Thousands)

The Company has not made any deposits regarding the suspension of running interest (protective deposits) pursuant to Internal Revenue Code Section 6603.

The Company's federal income tax return is consolidated with its majority owned subsidiaries. The method of tax allocation among the companies is subject to a written agreement, whereby the tax allocation is made on a benefits for loss basis. The tax share agreement allows for each direct Subsidiary of Parent that owns stock of another Subsidiary to be treated as the Intermediate Parent of the Intermediate Parent Group. As of December 31, 2015, only Penn Insurance and Annuity Company has elected to apply this clause of the tax sharing agreement.

A listing of the companies included in the consolidated return is as follows:

Penn Insurance & Annuity Company
PIA Reinsurance Company of Delaware I
Horner, Townsend & Kent, Inc.
HTK Insurance Agency, Inc.
Penn Mutual Asset Management, Inc.
Longevity Insurance Company, Inc.

The Internal Revenue Service ("IRS") has completed their examination of the Company's income tax returns through the year 2010. A limited scope audit for the years 2006-2010 was completed in 2015. Management believes they have adequately presented all adjustments. Tax years 2012 and subsequent are still subject to audit by the IRS.

The Company recognizes interest and penalties, if any related to unrecognized tax benefits, as a component of tax expense. During the years ended December 31, 2015 and 2014, the Company did not recognize or accrue penalties or interest.

The Company had no tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within the next twelve months of the reporting date.

Note 10. REINSURANCE

The Company has assumed and ceded reinsurance on certain life and annuity contracts under various agreements. Reinsurance ceded permits recovery of a portion of losses from reinsurers.

The table below highlights the reinsurance amounts shown in the accompanying financial statements.

	Gross Amount	Assumed	Ceded	Net Amount
December 31, 2015:				
Premium and annuity considerations	$1,803,531	$74,152	$ 681,398	$1,196,285
Reserves and funds for payment of insurance and annuity benefits	9,673,780	36,706	1,784,794	7,925,692
December 31, 2014:				
Premium and annuity considerations	$1,617,182	$48,834	$1,002,010	$ 664,006
Reserves and funds for payment of insurance and annuity benefits	8,472,568	24,093	1,390,521	7,106,140

The Company has entered into an indemnity reinsurance agreement with a single non-affiliated reinsurer, whereby the Company cedes its risk associated with the Disability Income line of business. Under the agreement, 95% of the assets and liabilities were transferred to the reinsurer, and the assets were placed in a trust that names the Company as beneficiary. As of December 31, 2015 and 2014, the Company had a related reserve credit of $191,425 and $198,765, respectively, which was secured by investment grade securities with a market value of $206,591 and $237,522, respectively, held in trust.

(In Thousands)

The Company entered into a coinsurance agreement with an authorized, non-affiliated reinsurer, effective January 1, 2013, to coinsure an existing block of guaranteed term products issued from 2007 through 2012. The Company retains 20% of the risk while reinsuring the remaining 80%, up to excess retention, which is already reinsured through separate treaties. The Company transferred $67,400 of reserves and $23,300 in cash, and received a $44,100 ceding commission. The after-tax gain of $30,200 was a direct increase to surplus and will be amortized into income over the emerging earnings of the business. The Company did not recognize amortization of this gain for the years ended December 31, 2015 and 2014.

INTERCOMPANY REINSURANCE The Company maintains various reinsurance agreements with affiliates.

		Assumed/(Ceded)			
		2015		2014	
	Affiliate	Premium	Reserves	Premium	Reserves
Coinsurance Funds Withheld	PIA	$ (48,702)	$ (942,839)	$(849,045)	$ (849,045)
IUL Inforce	PIA	(201,237)	(182,994)	—	—
Coinsurance	PIA	(134,135)	(428,233)	(37,764)	(338,684)
IUL	PIA	67,281	33,641	41,977	20,988
YRT — Over retention	PIA	2,114	236	1,955	218
Total		$(314,679)	$(1,520,189)	$(842,877)	$(1,166,523)

Coinsurance Funds Withheld At December 31, 2014, the Company entered into a contract to cede reserves pursuant to transactions subject to the requirements of Section 7 of the NAIC XXX and AXXX Reinsurance Model Regulation. The contract is a 70% coinsurance with funds withheld agreement with PIA effective December 31, 2014, to reinsure all risks related to an in-force block of single life no-lapse guaranteed universal life policies, net of inuring reinsurance, issued between October 2007 and June 2013 and inforce as of December 31, 2014. The policies are within the scope of the NAIC Valuation of Life Insurance Policies Model Regulation ("Regulation AXXX"). PIA contemporaneously reinsured the policies to PIA Reinsurance Company of Delaware I ("PIAre I"), an authorized, affiliated reinsurer.

The table below highlights the support for the Company reserve credit relating to its agreement with PIA, as well as the unamortized gain from the 2014 inforce transaction as of December 31:

	2015	2014
Reserve Credit	$942,840	$849,045
Assets supporting reserve:		
Primary Assets	646,520	582,795
Other Assets – PIAre I	296,320	266,250
Unamortized initial gain	173,062	173,062

IUL Inforce Effective January 1, 2015, PML ceded to PIA an inforce block of single life index universal life policies issued by PML between 2012 and 2014. The Company ceded 100% of the risk, net of inuring reinsurance. The Company transferred $113,021 of reserves and $81,000 in securities, and received $32,021 in ceding commission. The after-tax gain of $20,814 was a direct increase to surplus and will be amortized into income over the emerging earnings of the business.

Coinsurance The Company cedes certain insurance risks to PIA on a coinsurance basis.

IUL The Company assumes the equity risk associated with PIA's Indexed UL products on a YRT basis

YRT Over Retention The Company assumed from PIA policies issued after October 1, 2006 and before October 1, 2014 which resulted in retention greater than $1,000 per life.

(In Thousands)

Note 11. RELATED PARTIES

The Company entered into revolving loan agreements with JMS on March 13, 2009 and January 15, 2010, to provide funding in an amount not to exceed $65,000 and $50,000, respectively. Terms of the loans specify that semi-annual interest be paid on the outstanding balances based on market rates determined at the dates of the loans. The principal balances are due to mature in January 2029 and March 2029, respectively.

The Company entered into revolving loan agreement with JMS on January 25, 2013, to provide funding in an amount not to exceed $80,000. Terms of the loan specify the interest rate will be the published 3-Month Libor +250bps as of the draw date and will subsequently reset on the first business day of every fiscal quarter. The principal balance is due to mature in January 2033.

The Company recorded $11,070 and $10,911 in interest income on these notes for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company had outstanding principle receivables from JMS of $165,000 and $165,000 and interest receivables of $2,797 and $2,782, respectively, relating to these agreements.

The following table summarizes the gross, nonadmitted, and net admitted value of the Company's investment in SCA entities, segregated by line item classification within the Statements of Income:

December 31		**2015**			**2014**	
	Gross	**Nonadmitted**	**Net Admitted**	**Gross**	**Nonadmitted**	**Net Admitted**
Common stock, affiliated:						
PIA	$363,063	$ —	$363,063	$417,234	$ —	$417,234
HTK	9,525	—	9,525	9,888	—	9,888
PMAM	1,608	(1,608)	—	891	(891)	—
Subtotal	374,196	(1,608)	372,588	428,013	(891)	427,122
Other invested assets:						
ISP	201,389	(13,268)	188,121	188,397	(13,225)	175,172
Total	$575,585	$(14,876)	$560,709	$616,410	$(14,116)	$602,294

The Company files the non-insurance company SCAs of HTK, and PMAM with the NAIC SVO. The most recent filings for each of these SCAs were Sub-2 filings in June 2015. The NAIC Valuation method for both of these SCAs was 2ciB3 and no resubmissions were required. The NAIC Valuation amounts for these filings, which were as of December 31, 2014, were $9,888 and $0 for HTK and PML. The Company has filed the note receivables from JMS with the NAIC SVO and such notes have been designated with a rating of 3s.

The Company's unconsolidated subsidiaries had combined assets of $8,809,606 and $7,727,574 and combined liabilities of $8,130,939 and $7,025,582 as of December 31, 2015 and 2014, respectively. The admitted value of the Company's investments in subsidiaries includes goodwill of $41,524 and $41,371 and other intangible assets of $3,204 and $6,320 at December 31, 2015 and 2014, respectively.

During 2015 and 2014, the Company made capital contributions to ISP in the form of cash in the amount of $16,721 and $668, respectively.

Note 12. COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

LITIGATION The Company and its subsidiaries are involved in litigation arising in and out of the normal course of business, which seek both compensatory and punitive damages. In addition, the regulators within the insurance and brokerage industries continue to focus on market conduct and compliance issues. While the Company is not aware of any actions or allegations that should reasonably give rise to a material adverse impact to the Company's financial position or liquidity, the outcome of litigation cannot be foreseen with certainty.

(In Thousands)

In 2012, a putative class action complaint was filed against the Company in federal court alleging that the Company breached its contracts by failing to distribute surplus in excess of an alleged statutorily prescribed limit. After the complaint was filed, the Company moved to dismiss the complaint and plaintiffs opposed the Company's motion. The court decided the motion by abstaining from adjudicating the matter, ruling that the matter was one that should be decided by the Commonwealth of Pennsylvania Insurance Department. The action has been joined in the Insurance Department and the parties are presently conducting discovery. The Company believes that it has substantial defenses and will vigorously defend itself. No reasonable estimate can be made at this time regarding the potential liability, if any, or the amount or range of any loss that may result from this claim.

In December 2015, the New York State Department of Financial Services ("NY DFS") notified the Company that it did not agree with the reported calculation of statutory reserves for New York financial reporting purposes for certain universal life with secondary guarantee products. During February 2016, the Company reached an agreement with the NY DFS which will result in Penn Mutual holding additional statutory reserves on a New York basis. As of December 31, 2015, Penn Mutual held sufficient statutory surplus to satisfy these additional New York reserves, but such additional reserves will reduce New York statutory surplus. The company is not domiciled in New York, and these changes do not impact statutory reserves reported in our state of domicile, Pennsylvania, or any states other than New York, and therefore do not impact RBC ratios.

GUARANTY FUNDS The Company is subject to insurance guaranty fund laws in the states in which it does business. These laws assess insurance companies' amounts to be used to pay benefits to policyholders and policy claimants of insolvent insurance companies. Many states allow these assessments to be credited against future premium taxes. The liability for estimated guaranty fund assessments net of applicable premium tax credits as of December 31, 2015 and 2014 was $375 and $750, respectively. The Company monitors sales materials and compliance procedures and makes extensive efforts to minimize any potential liabilities in this area. The Company believes such assessments in excess of amounts accrued will not materially impact its financial statement position, results of operation, or liquidity.

LEASES The Company has entered into agreements to sell and subsequently leaseback certain assets. Computer equipment was sold for $1,070 with two different leaseback arrangements of $17 for 30 months and $15 for 36 months. Furniture and equipment was sold for $4,005 with a leaseback arrangement of $72 for 60 months. At the end of the lease terms, the Company has the option to return the equipment, purchase it at fair value or extend the leases. The Company has also entered into other leases, primarily for field offices. As of December 31, 2015 future minimum payments under noncancellable leases are as follows:

For the year ending:	
2016	$12,094
2017	10,940
2018	8,078
2019	7,591
2020	6,423
Thereafter	20,352

Rent expense was $17,524 and $17,105 as of December 31, 2015 and 2014, respectively.

COMMITMENTS In the normal course of business, the Company extends commitments relating to its investment activities. As of December 31, 2015, the Company had outstanding commitments totaling $346,001 relating to these investment activities. The fair value of these commitments approximates the face amount.

UNCLAIMED PROPERTY Significant attention has been focused on life insurance companies' processes and procedures used to identify unreported death claims and whether life insurance companies use the Social Security Master Death File ("SSMDF") to identify deceased policy and contract holders. The Company received notification from 14 states of their intent to examine compliance with their respective abandoned and unclaimed property acts. It is possible that other jurisdictions may pursue similar examinations. These actions may result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, administrative penalties, interest, and/or further changes to the Company's procedures. While the Company is not currently able to estimate these additional possible costs, the Company does not believe they will have a material impact to its financial position or liquidity.

LOW INTEREST RATE ENVIRONMENT A period of sustained low interest rates could negatively impact the Company's profitability as the interest margin could decline. Declines in our interest margin or instances where the returns on our general account investments are not enough to support the interest rate guarantees could have a material adverse effect on our businesses or results of operations. The Company recognizes this risk and has been proactive in our investment strategies, product designs, crediting rate strategies and overall asset-liability practices to mitigate the risk of unfavorable consequences in this type of environment.

In periods when interest rates are declining or remain at low levels, we may have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments reducing our interest margin. Moreover, borrowers may prepay fixed-income securities and mortgage-backed securities in our general account in order to borrow at lower market rates, which exacerbates this risk. Lowering interest crediting rates helps to mitigate the effect of margin compression on some of our products. However, because many of our contracts have guaranteed minimum interest or crediting rates, our margin could still decrease and potentially become negative.

During period of low interest rates, policy reserves may not be sufficient to meet future obligations and may need to be strengthened, which would reduce net income in that reporting period. No additional policyholder reserves were established in 2015 or 2014 as a result of the low interest rate environment.

Note 13. DEBT

The Company has entered into repurchase agreements with financial institutions in the normal course of investment activities; however, there were no open positions as of December 31, 2015 and 2014.

Note 14. SUBSEQUENT EVENTS

On January 4, 2016, the Company and its funded defined benefit pension plan invested $85,000 and $15,000, respectively, in a private investment bond fund that is managed by PMAM.

The Company has evaluated events subsequent to December 31, 2015 and through the financial statement issuance date of February 16, 2016 and has determined that there were no significant events requiring recognition in the financial statements and no additional events requiring disclosure in the financial statements

Our Noble Purpose

Since 1847, Penn Mutual has been driven by our noble purpose – to create a world of possibilities, one individual, one family and one small business at a time. As an original pioneer of mutual life insurance in America, we believe that purchasing life insurance is the most protective, responsible and rewarding action a person can take to build a solid foundation today and create a brighter future for generations to come.